

**NOTE**

**4 Strong investment ideas**

**Rezidor (Buy, TP SEK 37)**

**SGS (Buy, TP CHF 2,800)**

**Technip (Buy, TP € 93)**

**Vinci (Buy, TP € 49)**



[PDF report \(étude\)](#)



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## Human resources reflects the quality of management

*We were invited to attend the PRI in Person conference to share our experience in field of human resource analysis. Human resources (HR) reflects the quality of management, a factor that underpins long-term overall performance, including stock market performance, in particular in sectors with a strong human resource intensity. For example, we have a Buy recommend on Rezidor (TP SEK 37), SGS (TP CHF 2,800), Technip (TP € 93) and Vinci (TP € 49), four stocks that are included in our list of ESG Europe/France convictions for 2013 and which stand out favourably for*

### Practical application to Rezidor, SGS, Technip and Vinci

We were invited to speak at the PRI in Person conference on 1 October to share our experience curve on the social/human resource analysis since 2005 at Oddo Securities and from the point of view of the investor. The analysis of the human key factor in the examination and measurement of the **quality**

#### of management.

- The quality of management is key for the long-term investor. Numerous academic and practitioners' studies highlight the quality of management as a key factor underpinning a company's long-term overall performance, including stock market performance, particularly in sectors with a high **human resource intensity**.
- In a top down approach, this measure is based on a review of the CEO, the senior management team (executive committee), the organisation of the company, mid-level management and the human resources function (employee relations). The investor needs to be assured of the overall consistency between the company's strategy (business model), its organisation and human resource policy.

The indicators (**HR key performance indicators**) under reviewed are either systematic or sector specific.

- The human resource criteria under review systematically cover human resource strategy (presence of the Human Resource Director in the executive committee), career management (annual appraisals, rate of internal mobility), training (rate of access to training), employee representation (rate of employees covered in collective agreements), attractiveness of the job (employee shareholding, for example), risk and industrial relations (workplace accidents, strikes), and diversity (wide definition around the concept of cognitive diversity).
- Staff turnover, absenteeism, permanent employment contracts, working conditions, the age pyramid and employee benefits are the sector specific criteria that are the most frequently examined.

We think that the review of human resource criteria is all the more pertinent when the investor is drawn to sector with a high level of human resource intensity. By high human resource intensity, we include sectors with several of the following nine characteristics:

- **Payroll costs** that represent 50% or more of the operating cost structure (e.g. advertising agencies).
- Difficulties **passing payroll costs on to clients** (e.g. security services).
- With the majority of the workforce in **direct contact with clients** (e.g. IT services).
- A direct link between the service provided by the employee and **client satisfaction** (e.g. investment banking).
- **A vast workforce**, low sales/FTE ratio, several tens or even several hundreds of thousands of employees, split between thousands of sites, a **highly complex organisational structure** (e.g. logistics, industrial cleaning).
- Major structural challenges for the **attractiveness** of job's in the sector (e.g. public works-construction, distribution)

- "Talent wars" (e.g. biotechnology, internet, digital)
- A direct link between the **social climate/strikes** and **activity impact** (e.g. air transport).
- Difficult **working conditions** (e.g. mining sector).

We qualify the following sectors as being of high human resource intensity; investment banking, airline companies, public works-construction, retail (food and specialist retail), mining extraction hotel and leisure, media advertising and businesses in the service industry (support services, local authorities, healthcare, IT services and oil services). For example, in sectors of high human resource intensity, we have used human resources SWOT analysis for Rezidor (hotels), SGS (certification), Technip (oil services) and Vinci (construction-public works), four stocks with a Buy recommendation, and which are included in our 2013 ESG Europe / France 2013 convictions list and which stand out favourably by their human resource results.

### HR SWOT analysis on Rezidor, SGS, Technip and Vinci

Company	Strengths/Opportunities	Risks/areas for improvement
Rezidor	A well-established CSR learning curve (25 years) - 100% of hotels complied with local employment rights in 2012 (diversity, right of association, hours worked) - Policy on employees access to responsible business training since 2008 - A strong health and safety culture - Internal promotion favoured for the key post of general manager (95% in 2010) - Measure of employee satisfaction since 1994, broadly satisfactory results at a high level over a long period (2008-2012).	A structurally high level of employee turnover in the hotel industry - Quantitative HR reporting on key indicators such as absenteeism, turnover, training and frequency of workplace accidents - Stronger HR risk for the largely franchise/management model (third-party employees) - External certification of ESG data.
SGS	Organic growth model based on in-house human capital and recruitment - Controlled level of staff turnover in 2012 and stable for the sector at 13.7% (2014 target <14%) - Low level of absenteeism - Some 28.8 hours of training per employee in 2012 - Some 85% of line management positions were the object of internal promotion in 2012 (target of 100% for 2013).	Positioning of the HR department in the organisational structure - Rate of annual appraisals >two-thirds in 2011 and 2012 (target of 100% for 2014) - some 24% of employees covered by collective agreements - Information on managers' access to the SGS ownership structure.
Technip	HR represented on the executive committee - Workplace accidents (frequency and severity) - Overall staff turnover in 2012 was controlled and stable at about 15% for the sector - A reduction in absenteeism in 2012 to a low level - Management priority given to local recruitment in the 48 countries in which the group is established - Rate of annual appraisals of 92% in 2012 - Rate of access to training of 80% in 2012 vs 81% in 2011 - Employee shareholders (2.6% of the share capital was owned by employees at end-2012).	The ongoing harmonisation of the HR IT system - Potential talent issue (ageing population) in the countries where Technip employs most of its young engineers and technicians (France for example) - Some 42% of employees covered by collective agreements.
Vinci	Workplace accidents down in 2012 to a level that is already low for this sector (frequency and severity) - Employee shareholders (9.9% of the share capital in 2012) - Career management, training, internal mobility - Diversity policy - A controlled level of employee turnover (11-12% excluding the end of contracts on specific projects) - Social dialogue, employees covered by collective agreements, social climate in 2012 (limited number of strikes).	The HR function is absent from the executive committee - An issue with the attractiveness of the sector - Absenteeism in 2012, 8% of days worked.

Sources: companies, ODDO Securities



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