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Value of Human Capital as an Asset

Community Enrichment for Workers in the 21st Century, Part III

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Abstract

As we know organizations hard assets such as their products and solutions, is what distinguishes them from their competitors, correct? The soft asset or those harder to measure such as human capital seemed to be easily disposed of when it is convenient to the employer yet at the same time human capital is an organizations best competitive factor if the C-Suite values their Human Capital as an Asset.

The objective of the CEO is to return shareholder value to its stockholders. Therefore, it does come back to the leadership truly understanding the value of their human assets and how they can provide the most significant financial return to their organizations. Mello (2007) discusses the five major kinds of assets or capital that organizations can leverage to aid in performance and add value to their organizations; the hardest to measure is the human capital.

Those five areas are, 1) Financial, 2) Physical, 3) Market, 4) Operational and 5) Human (p 7).

If we look back at the hypothesis statements, one could 'predict' that part of the decision to invest in the high-potential employees is the return on investment to the stakeholders. All is well when the market conditions allowed for the monies to flow and for when human capital assets are swapped like a free flowing hedge fund on the open market.

Yet today, with the recession still high, unemployment still high, and workplace fatigue high and the output of productivity is as high as it could, be then one might ask the Talent Management staff, did they risk everything by putting all their investment in this one group by only selecting high-performing employees? Did the Talent Management staff act with predictability? Could they have done something different to offset the potential burnout of their high-potential teams and split up some of the investment in human capital spending in their 'B' and 'C' teams to overt the upcoming losses?

How strategic could they have managed their Human Assets differently to reduce their risk?

Keywords: Predictability in decision making, outliers, discrimination, is human capital an asset or liability? Performance, productivity of output – what is the correlation?

Introduction

As we continue our attempt to validate the hypotheses in the current workforce let us review some of the predictability trends of our thought leadership and the decisions that have been made to retain their current workforce to date. We know that the decisions made by the leadership teams in the Fortune 500 companies were to cut operational expenses and do what they could do in their power to keep their companies' solvent and the doors open during the past three years of the Great Recession.

The same would hold true for the Small-Medium businesses (SMB) yet the data sources provided in this research are for the larger entities. The question we all will be asking were the people decisions that were made to lay-off scores of people, run the organizations lean and mean truly effective based on the statistics from end of year 2009 and based on the current productivity results in 2010? Did the mid-term election cycle in November 2010 have anything to do with the larger organizations holding on to their cash reserves and withholding hiring? Were these decisions predictable as explained in Taleb's (2007) book The Black Swan? Taleb states in his introduction, "Before the discovery of Australia, people in the Old World were convinced that all swans were white. It was an unassailable belief as it seemed to be completely confirmed by empirical evidence (p1)."

> The sighting of the first black swan might have been an interesting surprise for a few ornithologists, but that isn't where the significance of the story lies. It illustrates a severe limitation to our learning from observations or experience and the fragility of our knowledge (p1).

Taleb goes on to say that, there are three attributes.

1) Its an outlier - it lies outside the realm of regular expectations. (Rarity)

2) It carries an extreme impact and retrospective - though not prospective.

3) Human nature makes us concoct explanations for its occurrence after the fact, making it explainable and predictable. (p1)

As we begin to review a few hypotheses there is a quote from Vandenbosch's book (2003), Designing *Solutions For Your Business Problems to Consider*, she says, "And remember that the more experience you have, the easier it is to develop hypotheses, but the greater risk is that you will treat your hypotheses as assumptions based on the strength of your own convictions (p 69)."

Another author with a healthy respect for research of social causes and development of theories of the 'cause and effect' of issues is Malcolm Gladwell. Gladwell (2005) has a slightly different approach in his book, *Blink*. "Blink reveals that good decision makers aren't those who process the most information or spend the most time deliberating, but those who have perfected the art of "thin-slicing" – filtering the very few factors that matter from an overwhelming number of variables (front flap of book)."

In these points made by the two noted authors regarding assumptions and the art of "thin-slicing" or filtering, are that many times we overlook the obvious and go straight to a conclusion without paying mind to the factors that got us there. Sometimes based on 'thin-slicing' we make quick decisions based on years of experience without truly needing to think. There are other times our decisions are made as pointed out in Gladwell's (2005) book, *Blink* that we are socially unconscious of our filters to provide discrimint thought in our decision-making. *Hence, our decision-making becomes unconsciously discriminating and judgmental.*

We have looked at some of the human potential leaders such as Maslow, Senge, McLagan, Gosling, Mintzberg, and continue to look at others such as Fayol, Stallard, Ulrich, Goldsmith, Gezzell, Worley, Lawler, and Dixon, Taleb, Vandenbosch, Gladwell, Mello and industry Talent Management consultants such as Towers Perrin, Hewitt, Camden Delta, Wyatt Watson to name a few more.

As we review the literature, we will look at several hypothesis based on research provided by authors who specialize in the field of Human Capital and those consultants who help shape the outcomes of those decisions with our leadership.

Value to the Audience

In the Wall Street Journal, Friday November 5, 2010 there is a section on the front page of the paper that provides the quarterly change in productivity based in labor. Based on the results although there has been a slight uptick overall the American worker's productivity, it appears to be at capacity based on a lean workforce. There is a graph below that shows the figures from 2001-2010.

> Vital Signs -Workers were a bit more productive in the third quarter. Productivity, as measured by output per hour, increased at a 1.9% annual rate. That reversed a 1.8% decline in the second quarter but was still less than the average gain of 2.4% since 1990. Many companies' ability to increase productivity from their lean work forces may be limited in the quarters to come. Source: Labor Dept. via WSJ

Vital Signs – Productivity Per Hour

Bartash, J. (2010). *Vital Signs - Labor Dept.* Wall Street Journal, Friday November 5, 2010. Dow Jones & Company. http://www.marketwatch.com/story/third-quarter-us-productivity-climbs-19-2010-11-04.

The reason the productivity factor is addressed will be discussed as we review several hypotheses and potential concerns the Talent Management has for their Human Capital Assets over the next several cycles.

Call to Action

If we take into consideration the productivity output of the American worker based on the latest labor indicators of 1.9% as of November 5, 2010 and the comment made that increased productivity may be limited due to lean workforces from the WSJ Vital Signs report and apply these finding to the burn out factors that the Talent Management teams face today. What could we begin to hypothesize about these concerns?

A survey was prepared by Towers Perrin in 2009 and an article written by Kathy Gurchiek, entitled, *Employee Negativity Grows with Recession Fatigue* 12/18/2009 in Towers Perrin's Quarterly Workplace Watch. Towers Perrin collected data and is from about 640,000 people working at 54 companies around the world from July-September 2009. Gurchiek begins her article by describing the fatigue of the workers, "The cut-to-the-bone mentality of organizations trying to weather a lingering recession has taken its toll on employees' perception of long-term career opportunities at those companies, according to a report released Dec. 15, 2009 (p1)."

In the article Gurchiek (2009) quotes Max Caldwell, a managing principal at Towers Perrin as he discusses the high-potential, highly talented employees, "you need to be very open in managing expectations without being discouraging or pessimistic," he said. That includes finding other ways to deploy their talent, such as through special or temporary assignments (p1). Mainly the concern was to find different projects and provide opportunities for the high-potential employees as promotions were not happening yet to find projects and ways to introduce them to senior management.

Fast forward to the end 2010 and the purported fatigue cracks due to the recession are large as well as the burn out factors not only in the high-potential employees but all the employees with the exodus of the high potential employees that have already begun. Based on some of the studies from Towers Perrin and the predictability outcomes of the Talent Management decisions, how could these outcomes been avoided?

Review of the Hypotheses

The studies focused on the Fortune 500 companies and the succession planning High-Performers and the first line managers who are considering leaving the company within the next twelve months due to burnout.

The percentage of a company's employees who are well suited for their roles is 20%. The number came from a Talent Manager Pipeline chart from the *HCS Certificate Course V.3.0, 2010.* Is it a coincidence that only 20% of the people are in the correct roles for their jobs? Who are these people? How were they selected to be in these high-potential roles when they entered the company? How much of the companies resources are invested in them? In sales, there is a golden rule to spend 80% of your resources on 20% of your top tier customers to get the most return from your investment. Does this rule apply to the high-potential employees as well?

The rate of efficiency at which most businesses operate because of *poor engagement levels is at 30%*. The number came from a Talent Manager Pipeline chart from the *HCS Certificate Course V.3.0, 2010.* What are the drivers of poor engagement? **Why is this figure of 30% not jumping up and down and off charts at every Corporate Board meeting?** How do we match the efficiency rate and correlate this rate to poor engagement when the production rate is at an all-time high of 1.9% with the current workforce? What are the cause and effect of poor engagement? **Why is our leadership not trying to achieve a 70% efficiency rate?**

The value a top performer (high potential) generates is 2-3 times the performance of an average employee. The number came from a Talent Manager Pipeline chart from the *HCS Certificate Course V.3.0, 2010.*

After seeing this chart, or reading these statements, one might hope you would not say – so what? As we know organizations hard assets such as their products and solutions, is what distinguishes them from their competitors, correct? The soft asset or those harder to measure such as human capital seemed to be easily disposed of when it is convenient to the employer yet at the same time human capital is an organizations best competitive factor if….

Value of Human Capital as an Asset

In reviewing the answer to how organizations determine who the high-potential people are is truly is how the organization itself values and leverages its Human Capital. Unfortunately or fortunately, Human Capital is an asset or liability to an organization like any other product or resource. The objective of the CEO is to return shareholder value to its stockholders. Therefore, it does come back to the leadership truly understanding the value of their human assets and how they can provide the most significant financial return to their organizations. Mello (2007) discusses the five major kinds of assets or capital that organizations can leverage to aid in performance and add value to their organizations; the hardest to measure is the human capital. Those five areas are, 1) Financial, 2) Physical, 3) Market, 4) Operational and 5) Human (p 7).

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Summary

In summary, the areas of consideration are surrounding productivity and performance, rate of efficiency and poor engagement. Organizations of the 21st century cannot expect to be successful without an understanding of and the response to these trends and changes.

Diversity, selection of various groups, perhaps an unfair selection processes, as loyal employees may no longer exist. High performance organizations need to be a focus for all employees across the board to increase efficiencies and productivity. Changes in whom organizations employ and what these employees do require that HR practices and systems are well conceived and effectively implemented to ensure high performance, engaged and high efficiencies are available for all employees to be successful. How predictable would that be?

Mello adds, HR practices must constantly be reviewed and evaluated to allow organizations to respond to changes taking place in its environment, nothing should be taken as a given. Failure to allow HR to assess and drive initiatives can greatly compromise an organizations ability to remain competitive in an ever-changing marketplace and society. (p 65)

Resources

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