People Matter: Valuing Human Capital

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By Jim Pinto

Today’s competitive global markets generate increasing pressures for short-term profits. Many companies that have recovered from the recent recession are still reluctant to hire, because they feel the need to remain cautious in the current unstable business environment. That is often because people are often counted as costs, not as assets. The lower down the chain a person is, the more expendable they become. The JimPinto.com weblogs reflect the dissatisfaction when people are eliminated when work goes offshore.

Some think that it is a social responsibility for a company to “look after” its people. The truth is that it’s just good business. People are the primary assets of any business. Good people produce positive results. Almost anyone who is treated with respect and dignity is motivated to perform. There’s a widespread, outdated cultural myth that only higher-level employees can be motivated—low-level, hourly-paid employees are considered drones who simply work for a paycheck and cannot be motivated to do more. That attitude is as obsolete as factory sirens, time clocks and supervised 10-minute coffee breaks.

People at all levels can be innovative, imaginative and yield results far above what is expected. Indeed, continuous quality improvements depend largely on feedback from employees at all levels. Many leading companies include all employees in profit sharing and performance bonuses, to stimulate teamwork, which generates results.

The problem is not always that companies do not value their people—often they do not know how to value them. It is not simply a matter of providing more perks and paying more attention; it is much more widespread and diffuse than that. Loyalty
is a two-way process, a culture carefully developed and nurtured over a long time.

Successful organizations recognize that intellectual capital and knowledge management are the core ingredients of success. Good businesses know that while most other assets become obsolete and are replaceable, fully developing and utilizing the knowledge and experience of people has paramount importance.

Humans Produce Value

In order to value people, companies must move beyond the concept of human resources and toward the notion of human capital. The term “resource” implies an available supply that can be drawn upon when needed. The term “capital,” however, refers to something that produces value, and gains or loses value depending on how much is invested in it, and how it is maintained.

Many organizations would protest. After all, they go to great lengths to communicate how they value their people and make every effort to do the right thing by all their employees. But, the ultimate test is in how people are accounted for in the financials: as assets or expenses. The peculiar word, “headcount,” is a clear indication of typical “bean-counting” myopia, which is how people are viewed in financially orientated companies. Salary expenses, benefits expenses, training expenses and the like are all the “costs” that are typically most affected by “belt tightening” when last quarter’s (or last year’s) earnings turn out to be less than expected.

If intellectual capital was developed and cared for in the same way mechanical equipment was acquired, maintained, and upgraded, then companies would not consider cutting the training budget or withholding merit increases when there is a profit shortfall. The assets that thrive are the ones that are fed. And, while financial assets depreciate, people investments appreciate—they continue to grow and produce more and more results. People are a company’s primary assets; they represent the knowledge base, the proprietary edge.

For successful companies today, investment in people will pay off more than investments in other assets.