

Are you overlooking 80% of your company's value?

By [Sonja Lombard](#)

19 Oct 2018

Employees today are more loyal to their profession than to the organisation they work for and are prepared to take ownership of their careers and development. This is because they are increasingly interested in having challenging and meaningful work, making them less accommodating of inflexible traditional structures and authority.



Sonja Lombard

Companies need to take heed of this as there is a demonstrated relationship between better human capital management and improved business performance. Most companies today operate within a volatile, unpredictable, complex and ambiguous environment. The competitive market is challenging and the ability to effectively recruit, retain, deploy, develop and engage human capital is really the only true competitive advantage a company possesses.

From a global perspective, two studies focusing on business transformation and people analytics found that companies that excel at managing human capital report earnings that are 15% higher than that of their peers. This indicates that companies with high human capital management scores posted higher stock market returns and safety records.

Findings like these show that human capital management is a mission-critical process for the current and future business priorities of all companies. The question is: how can companies respond to these challenges to capture both the heart and the mind of today's workforce?

People create value, not businesses

Over the past 30 years, an increased focus has been placed on the quantifiable returns of human capital investment. By examining research on this topic, it's easy to understand why and it's because of a significant shift in how a company's value is calculated. In the 1980s a company's value was attributed to physical assets (including equipment and facilities) and only 38% to intangible assets (patents, intellectual property, brand and *most of all, people*). Now, the percentages have nearly flip-flopped – attributing 80% of value to intangible assets and 20% to tangible assets.

Consequently, boards and investors are putting senior leaders under a microscope, expecting them to create value. This pressure, most visible at the CEO level, drives a growing emphasis on the quality of talent.

To achieve this, senior management should understand that businesses don't create value – people do. Managing human capital must be accorded the same priority that managing financial capital came to have in the 1980s, when the era of the 'super CFO' and serious competitive restructuring began. This boosted the finance function beyond simple accounting.

Creating value in the value chain

The origin of profitability is identical regardless of industry, according to an article written by economist and associate professor Michael Porter for the Harvard Business Review. In that light, industry structure is what ultimately drives competition and profitability - not whether an industry produces a product or service, is emerging or mature, high-tech or low-tech, regulated or unregulated.

A value chain can be described as the full range of activities that businesses conduct to bring a product or service from conception to delivery. For companies that produce goods, the value chain starts with the raw materials used to make their products and consists of everything added before the product is sold to consumers. The support activities (procurement; technology development; human capital management; and firm infrastructure) play an integral role in the added value of the product or service.

Therefore, looking towards optimising and improving human capital management within this value chain is key to creating value. It is important, though, that businesses are realistic about the process.

Be guided by your business vision

While all staff equally deserve to be developed, it is not always within our means to develop all employees every year. In a situation where various staff members have been identified as requiring training, but there is a limited budget available, a strategic discussion needs to be held regarding how to proceed.

There is no template to be followed here, but some guidelines are available to assist managers in selecting the best candidates for development:

- Statutory and technical skills should always be prioritised. These usually relate to production and health and safety, which directly affects the company's profit margins.
- Secondly, there should be a focus on critical skills and scarce skills.
- Thirdly, there should be a focus on softer skills.

However, companies *must* ask where they are heading. Should the company's vision be to have the most recognisable brand in their industry, driven by a capacitated leadership team and proactive succession planning, then sales and leadership development should be prioritised.

Creating a new, common language

The challenge in building a dynamic adaptive organisation is to evolve from the traditional or conventional organisational structures and create an environment in which you have the distributed leadership you need, with the mutual trust necessary to ensure appropriate decisions are taken to meet the specific circumstance.

Overcoming this calls for a new language that bridges the divide: *human capital management*. This retains the human element whilst simultaneously recognising the organisational value inherent in people. We need to determine that value in a way that both parties are comfortable with. When we have done this, we will have the basis of a common “language” that bridges the communication gap and enables more effective cooperation and collaboration.

ABOUT THE AUTHOR

Sonja Lombard has 30 years of experience in management and operations at an executive level both in the private and public sector. Her professional strengths lie in strategic marketing, client relationship management, facilities management, project management, business management, financial management, strategic management transformation, and change management. With a demonstrated and impressive success record, Sonja now offers her wealth of expertise, knowledge and experience as an Associate at DB & Associates helping businesses transform and optimise their operations.

For more, visit: <https://www.bizcommunity.com>