



Capital Asset Management – The Human Side

Capital goods investments made by our companies decrease in value as over time. Human Capital investments are quite the opposite.

Human Capital is the most important investment a company makes. Why? Try managing a company without people. It can't be done. Yet, most organizations view human capital investment as an easily replaced commodity calculated by compensation and benefits costs to the company and the bottom line liability to business operations.

Instead, I invite you to really think about Human Capital as belonging on the asset side of your balance sheet. When you hire correctly, the longer employees stay with your company, the more they increase in value to you. They know more about their position responsibilities, your expectations of them, the processes and procedures within the company, your markets, your clients and customers, and have developed internal relationships that allow for the greatest return on investment (ROI), with high functioning work groups and teams within your work force.

Let's say that I'm about to undergo some non-elective surgery. I begin my search for a surgeon—one who is highly trained, smart, and very knowledgeable in their area (and done this operation hundreds of times) of operation. If I must have surgery, especially a complex procedure, I certainly don't want anyone less than the surgeon who has completed this procedure with success many times before I came along. It's the same with your employees, the longer they stay with your company the more expertise they develop, and the more your clients want to interact with them/buy your products—which makes your company the obvious choice.

Jim Collins defined companies which are highly, continually successful, in his work *Good to Great*, as those who realize the importance of first making sure that the right people are hired, that they are in the correct roles, that they understand the mission of what they are doing,

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and that they are trained appropriately to meet the demands of the customer.

The investment in Human Capital is significant and should be approached with great care to only hire good employees and then retain the individuals you worked to bring into your company. Bradley and Geoffrey Smart, authors of *Top Grading*, estimate that the loss to your organization of a fully functioning, highly productive employee will cost you between 3x and 6x their annual salary. The intellectual property, knowledge of processes, customers, markets, and co-workers, is a quantifiable asset. All that is aside from the recruitment costs and interviewing time (interviewing correctly means multiple interviews with multiple staff involved in the decision—a huge time investment), and realizing that any new employee is going to take six months or more to get up to speed. Thus, every day the position is open is a great loss in productivity to your organization.

Many of us have read *Zapped* by Bill Byham, founder of DDI. Although written as a parable, we all have experienced the same environment with parallel work groups in the same organization, one highly productive the other not. The key to success: knowing the importance of focusing on the Human Capital element of the organization and realizing that it is anything but a commodity.

Human Capital is your most important asset, and those companies that do it well continuously outperform their competitors every year in new product development, competitive responsiveness, client/customer satisfaction, revenue, and profits. How do you view the Human side of your company?

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