The Value of Human Capital

There are many business thinkers who believe that the world of corporate operations is undergoing a significant revolution and that the old concept of the supreme importance of financial capital is being overtaken by the newer notion of the centrality of human capital.

The shift in the paradigm that essentially defines how companies think is significant. Currently, with the financial based model, companies are generally focused on strategy, structures and systems. Through these they define their goals, methods of reaching targets, resources to be allocated, operational procedures and much more. The new model of human capital alters the focus to purpose, people and process, meaning that companies will spend a great deal of effort defining their reason for being, the way their people contribute to achieving that purpose, and the processes to be engaged to reach the goals.

Certainly on some levels there is a great deal of synergy. For example, it could be suggested that the purpose of a company is to generate profits. From this viewpoint at least some of the considerations would swing back in line with the financial model. But this, of course, distorts some of the core impact of the pending revolution.

Never ones to want our clients (or ourselves) to be caught off guard or at the tail end of a revolution, Tudog has decided to take a closer look at the Human Capital revolution and see whether there are aspects of it that are inevitable (in which case the sooner we adjust the better), and aspects that are advisable (which also makes sense to adopt sooner rather than later).

For sure the corporation has been under a process of change for the past 40 years. There have been a number of elements that have caused the need for significant adjustment, such as globalization. Corporations took to restructuring and reengineering themselves to adjust to advances in technology and new concepts in logistics and product delivery. Certainly the web and e-commerce also caused a great deal of pondering and amendment.

Understanding this shift requires a comprehension with regard to the extent to which companies have begun to look at their personal as a scarce and valuable resource and whether this perception is both new and the catalyst for a new way of thinking.

Traditionally companies have viewed financial capital as being the primary and required resource and that it was viewed as being in perpetual short supply. This being the case, the focus of management was always on the effective use of its financial resources. From this way of thinking came the concepts of Return on Investment, Earnings Per Share, and other financial measurements. Decisions, in companies embracing this model, are made based on the financial consequences only. The Human Capital approach claims that while financial considerations are still important, financial resources are no longer the resource that inhibits, restricts, and determines the progress of a company. That dubious distinction now belongs to human capital, the absence of which, it is claimed, can serve to hinder a company in ways more harmful that the lack of financial resources ever could.

For example, in today's highly competitive environment we have all witnessed companies with fewer financial resources out maneuver richer, more powerful companies. Their successes were born of better information, greater expertise, and the more efficient use of knowledge. These are all factors associated with Human Capital.

Significantly, this new era of emphasis on human resources alters the notion of competitive advantage and requires new ways for management to allocate resources and measure results. It also lays traditional strategic thinking on its head, as now the acquisition of know-how becomes as critical as the gathering of more traditional assets.

So how do companies make the adjustment? There are 3 primary things that need to be done:

1. You Need to Encourage Individual Initiatives

Most companies have decision making and new initiative structures that are top-down, meaning that management makes a decision and passes its implementation down to those charged with getting it accomplished. The Human Capital model demands of the enterprise that it enable individual initiatives to be pursued and executed. This will require some adjustment not only in the way management relates to new ideas (and tolerates bad ideas and failures), but also in the very structure of the decision making process.

2. You Need to Exploit Your Knowledge

Under the financial model roles are often rigid and expertise is defined in a somewhat narrow manner. The Human Capital model calls upon companies to create the internal mechanisms for knowledge to flow freely within the organization so that know-how and ideas can perhaps come from sectors of the company that are not directly involved with a specific project (but may have contribution to make). In many ways the web has enabled this sort of information sharing to take place. Now all that is needed is the vision and will of management to implement and encourage it.

3. You Need to Constantly Reinvent Your Company

Generally companies focused on financial parameters concentrate on improving profits through the improvement of existing products and the introduction of new products that are somehow related or spun off of the core product lines. The Human Capital model suggests that companies will need to redefine themselves in a more dramatic manner, in many cases reinventing their purpose and products as they proceed. The engine for this capacity to make oneself obsolete is innovation, which, it is expected, will be the primary outcome of a new focus on human resources.

The value of people has certainly been disregarded as more and more companies came to see their employees as expendable resources to be replaced whenever the cost of maintaining their wellbeing became too expensive. This approach has deteriorated employee loyalty to the extent that it barely exists in the Western world. A return to valuing employee contributions will require some shifts in the way we have come to structure our companies. Even if it doesn't have the expected positive impact on profits, it will at least bring us back to the days when working for a large company was something people could be proud of.