



Namariuz

- Future Business Trainings by Experience!

Human Capital Value

How to Engage Human Talent

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Human Capital Value Indicators

- In 1900 = 17% of jobs required knowledge workers. Now over 60% of jobs (at least) require an educated workforce

*Butler Patrick et al. 1997 "A revolution in Interaction"
McKinsey Quarterly 1:8*

Human Capital Value Indicators

- 60% of talented young managers are more likely to leave their employer than older managers
 - Seeing parents downsizing has created a Me Inc generation
 - Not us it is me!!

Michaels, E., Handfield-Jones, H. & Axelrod, B. (2001). The War for Talent. McKinsey & Co p4

Human Capital Value Indicators

- In 1982 tangible assets on the balance sheet (of a group of US Corporations participating in a benchmarking study) represented 62%.
- By 1992 this was 38%!
- In a recent estimate it was 15%.

HRMagazine; "The Value of People" Sept 2003

Value of Human Talent

McKinsey

- Companies that scored in the top 20% of a McKinsey 'Talent Management Index' on average had a 22% higher return to stakeholders than peers in their industry

Value of Human Talent

Accenture

- In a study by Accenture that measured the overall business impact of investment in learning found those companies who did had a higher performance and produced higher results:
 - Sales per employee = 27% greater
 - Revenue growth = 40% greater
 - Income growth = 50% greater

Value of Human Talent

American Society of Training & Development (ASTD)

- It was found that the average 5 year returns in stock market value related to the level of a company training investment:
 - Top 50 firms produced 86% returns
 - Standard & Poor (S&P) firms produced 25% returns
 - Bottom 50 firms produced 19% returns

Value of Human Talent

McKinsey

- McKinsey estimate highly talented managers are 50% to 130% more productive than average or low-performing managers

McKinsey - The War for Talent

Business Case for Human Capital Value

- The argument for strategically managing your human capital value is overwhelming at a:
 - Macro Economic Level
 - Micro Economic Level
 - Performance Level
 - Stake holder and Shareholder Value level
 - Employee level
- Yet Business managers do not believe in investing in training & developing talent??

ASTD Benchmark Fortune 500 Forum

- ASTD Benchmark Forum consists of group of Fortune 500 companies
- Training declined from 2.47% as a percentage of payrolls in 2002 to 1.99% in 2004

This represents a significant decrease in absolute \$\$\$ expended by ASTD Benchmark Forum Companies

Myth Busting I

“Why should I pay to have my employees educated? When they graduate they will leave the company!”

Research shows investing in your people reduces turnover by 55%

Shows you can make this work harder and turn training into an employee retention strategy

“You paid for the skills, now keep them: Tuition Reimbursement and Voluntary Turnover” Benson , G.S. Finegold, D & Albers Mohrman S.

Myth Busting II

“If I want employees with a certain education I am better off getting them from outside”

There is the grass is greener on the other side philosophy also implied assumption that they are avoiding the cost to get the education

Can be a more economical to invest in new skills from current employees! It is a balancing act!

Myth Busting III

“Why should I allow my employees to take any course of their own choosing? They will just go and choose any course that is not relevant to my business”

Practical reality is employees are more motivated to make educational choices that enhances their asset value to their current organisation

85% of cases where adult learners seek education, their decision is driven by career transition issues

Aslanian, C. (2001). Adult Students Today. The College Board, New York. Pg 16

Myth Busting IV

“ROI from human capital cannot be measured! I am just going to treat it as a short term cost, not a long term investment”

True there is an objective need to build a credible case for the objective measurement of human capital

But there is a case to build human capital as an asset and expenditures relating to improved human capital as an long term investment

Yet Executive are not Satisfied!!

- ONLY 16% of Executives are satisfied with overall performance of their training organisations
 - Study by Accenture “Learning organisations Challenged to Prove Business Impact”
– Business Wire 2004
- ONLY 20% of Executives agree they have enough talent to pursue and achieve their goals
 - Michaels, E., Handfield-Jones, H. & Axelrod, B. (2001). *The War for Talent*.
McKinsey & Co p4

**Effective talent strategy
must be the most vital contribution
HR can make to Corporate Strategy**

Why we need to change!

- **Capital expenditure is a multiyear expenditure**
 - Human capital is calculated in a single cost period
- **Companies have to respond swiftly to competition**
 - Need the resources to respond to these changes
- **Big Investments is a board decision**
 - Training and development is left to the line manager (benign neglect)
- **Requests for tangible asset expansion require a ROI analysis**
 - ROI for human capital is a challenge that must be addressed
- **Expenditure on tangible assets are financed over several years**
 - Training and development is all virtually booked in the same year

Characteristics

- The Co-Investor
 - Like a joint venture the employee is a co-investor in the corporation and hence has shared and conflicting interests
- Free Will
 - The employee is free to do what they will with that investment
- Multiple Return Periods
 - Training and development is booked as a current expense
- Objective Return Measurement
 - Human Capital Valuation is subjective

Realisation

- Need to quantify intangible value
- Humans Capital Value is the new economy
- Need a monetary determination of Human Capital Value
- Historical accounting measures do not do it!

How Do We Measure Human Capital Value

It's an ongoing debate but here are
some examples...

Current Approaches

- Human Assets include:
 - Skills, knowledge, talents and capabilities of all individuals associated with an organization.
- The measurement of Knowledge - Value takes:
 - The valuation of all Human Assets in an organization
 - The assessment of the organization's effectiveness in generating value and performance out of its human asset

Karl Erik Sveiby Methodologies

- The following 21 approaches have been categorized and presented by Karl Erik Sveiby (2001) as the current methodologies for determining the value of an organization's Intellectual Capital or Intangible Assets [which include the value of Human Assets]
- Karl Erik Sveiby:
 - Based in Helsinki, Finland and professor in Knowledge Management at Hanken Business School.
 - Has researched management of knowledge and knowledge organisations since the early 1980s
 - Has published twelve books on the subject, the first in 1986.

What about the Attitudinal and Emotional Values?

What about Attitudinal and Emotional Values?

- Attitudes?
- Emotions?
- Behaviour?
- Relationships?
- Networks?

STOP

Work out for a moment the cost to your company

Research into Employee Attitudes

- As found in a major study by a former **Harvard University Professor**, David Maister, reviewing a professional services firm, out of a comparison of 139 offices, in a six-point scale (from 'Strongly Disagree' to 'Strongly Agree') he concluded a one point increase in **'Employee Satisfaction' increased financial performance by 40% - 42%** via improved **'Quality & Client Relationships'**

MindWorks

SUBMODALITIES

SEE HEAR

FEEL

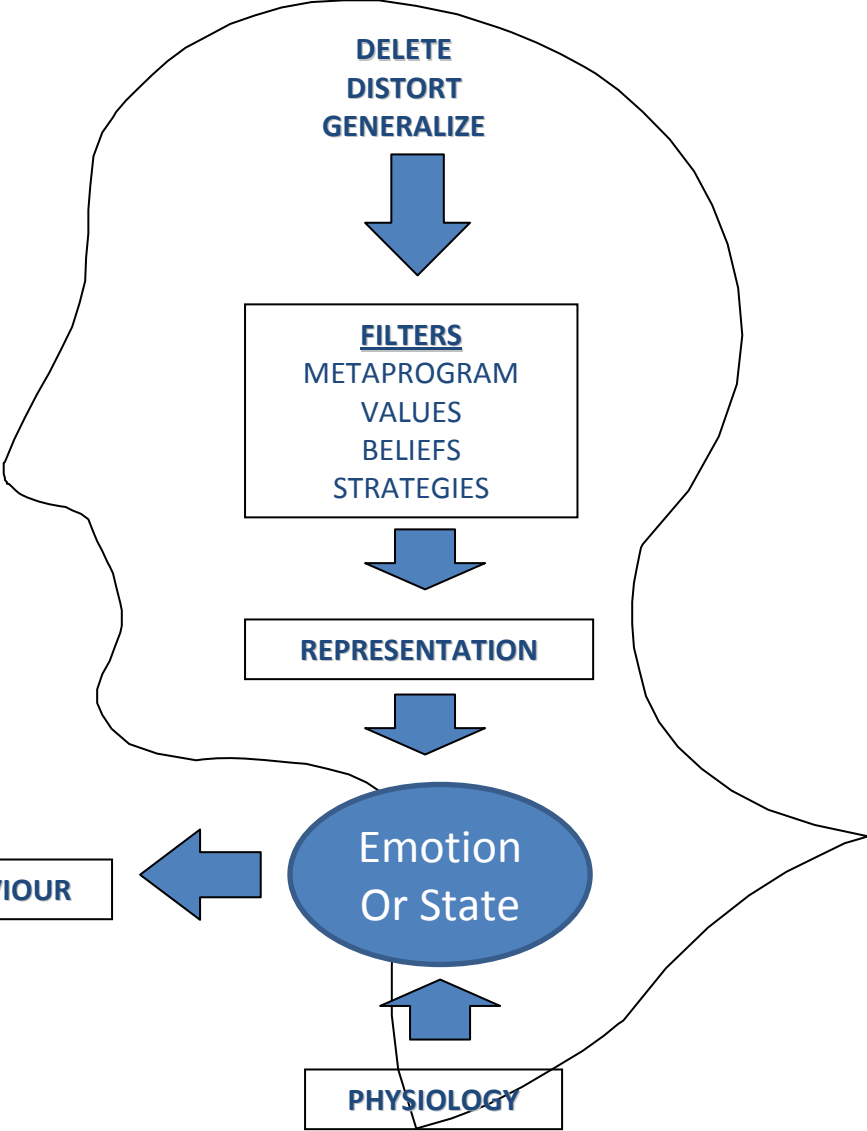
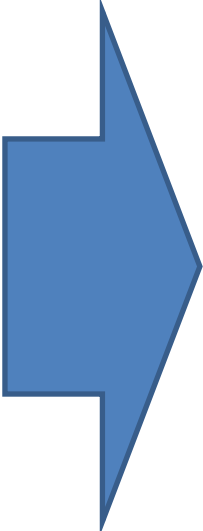
TASTE

SMELL

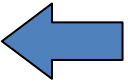
6TH SENSE

7TH SENSE

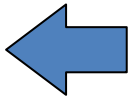
8TH SENSE



RESULT



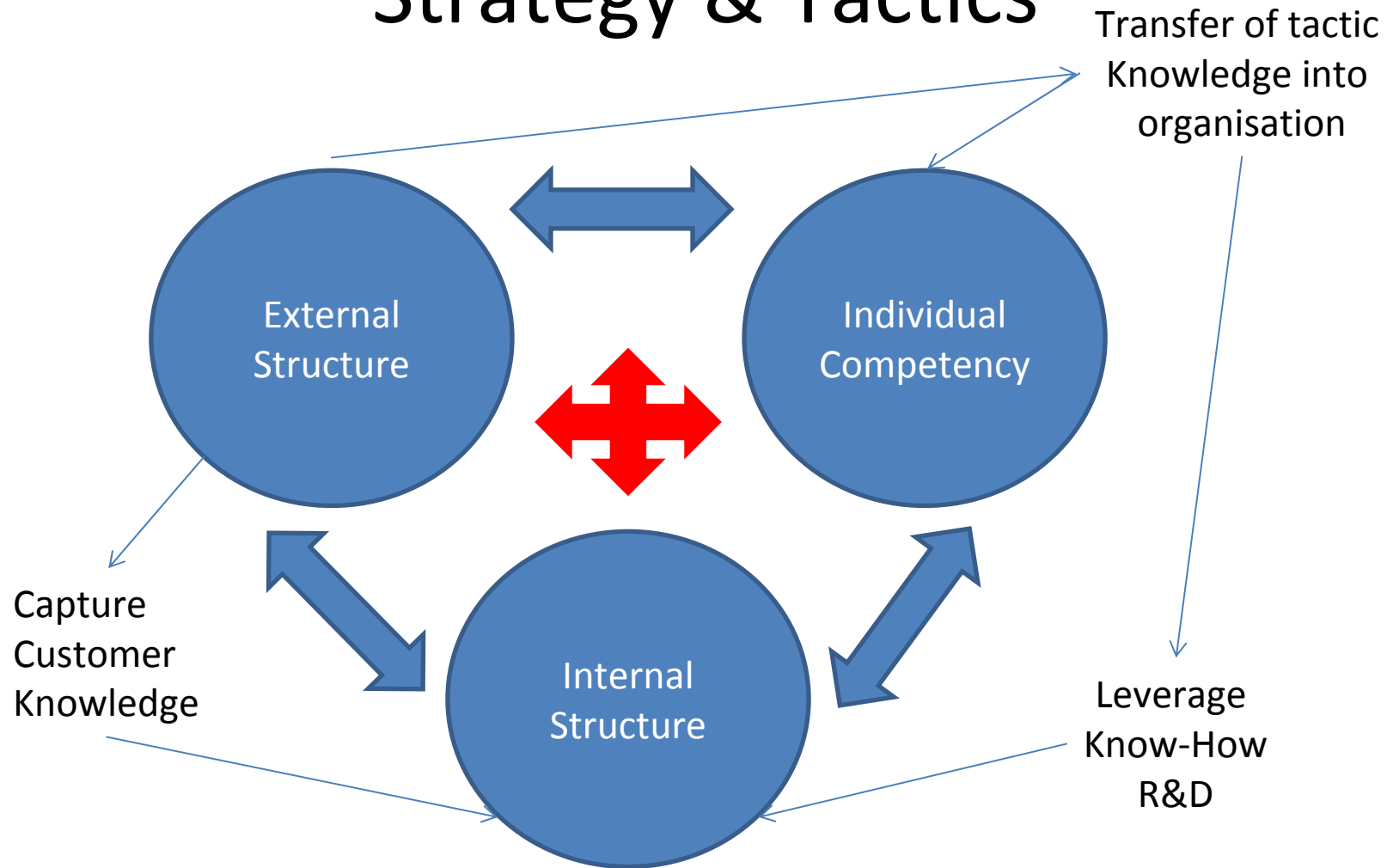
BEHAVIOUR

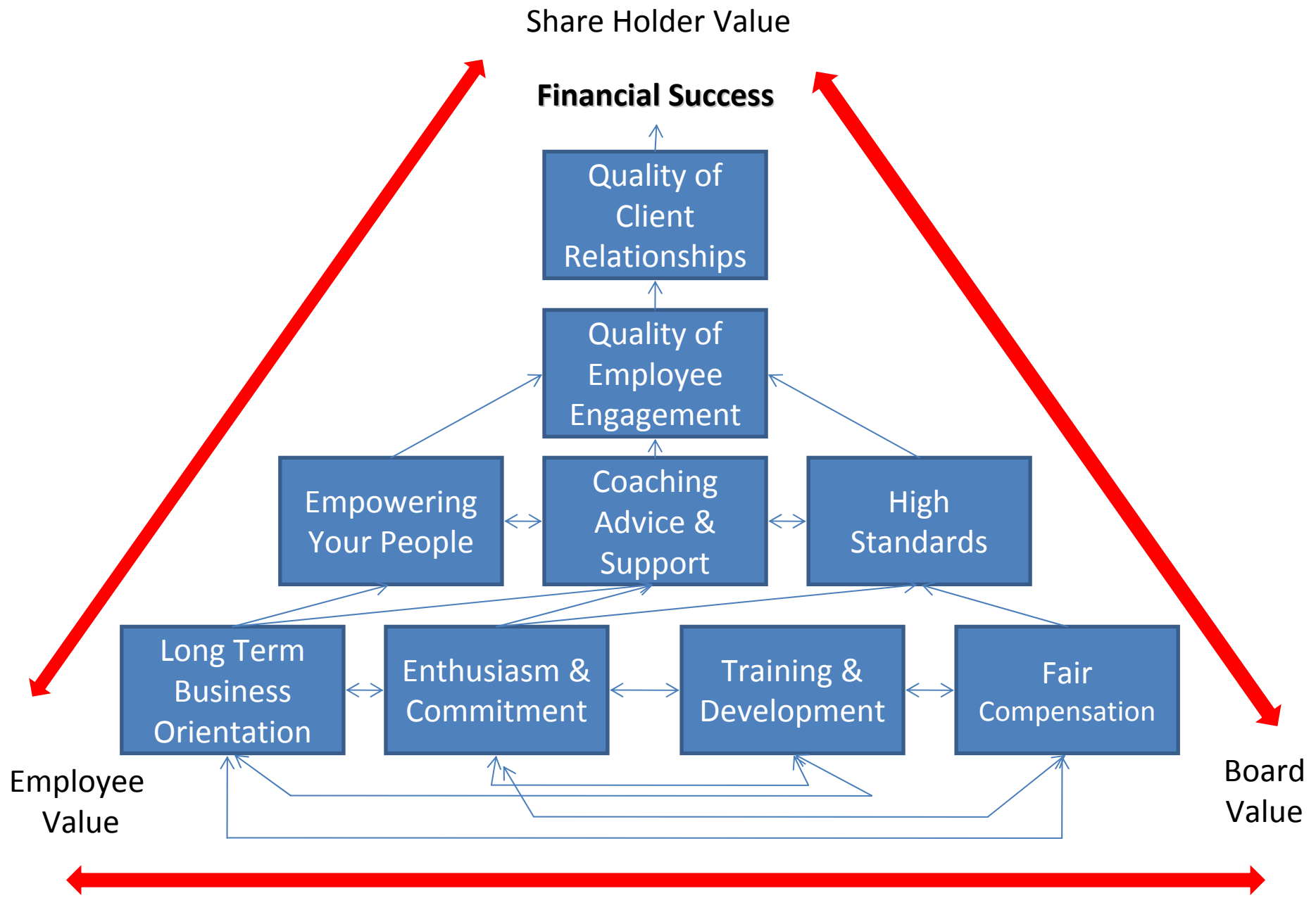


Personal Ambition

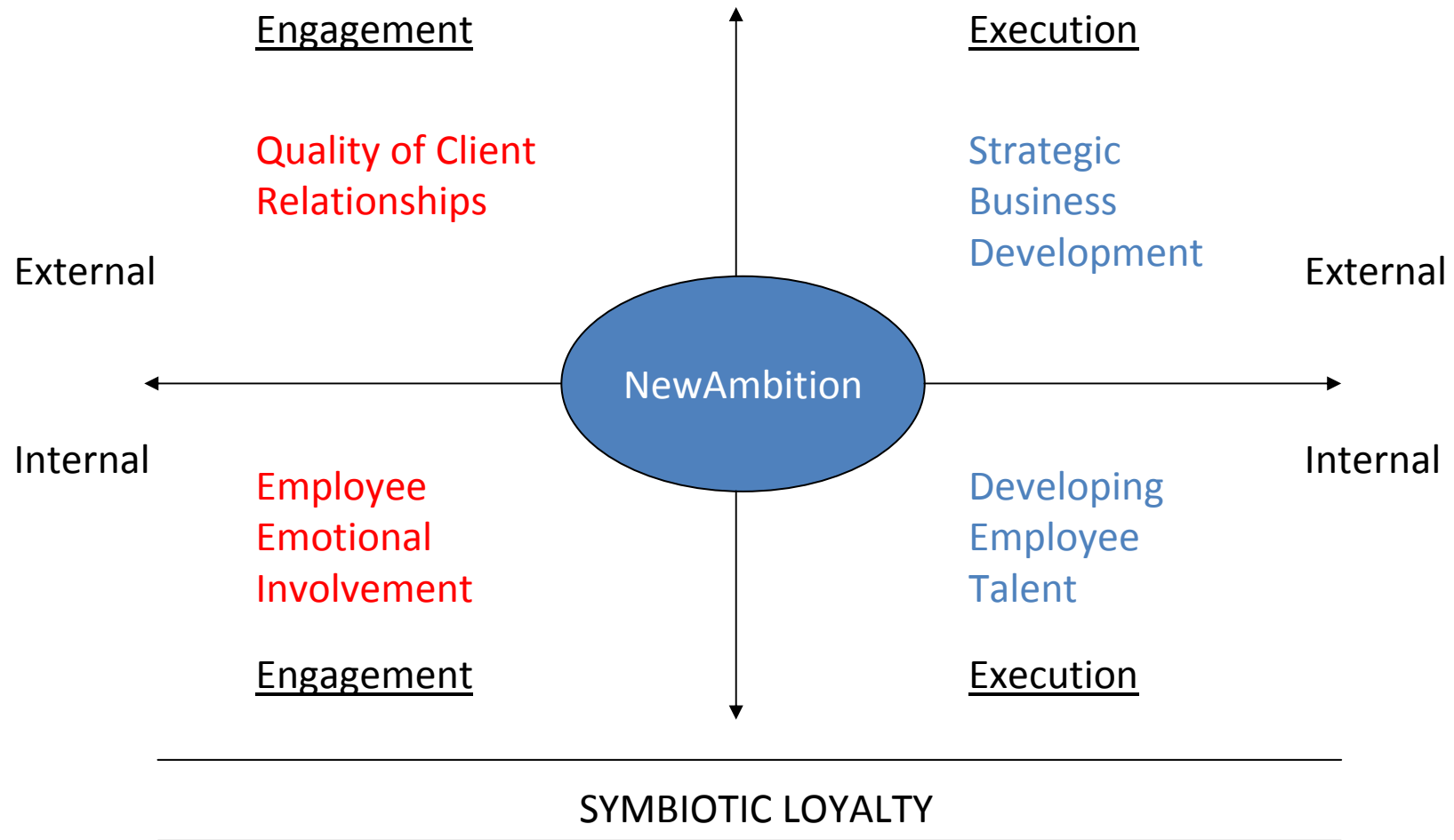


Knowledge Management Strategy & Tactics

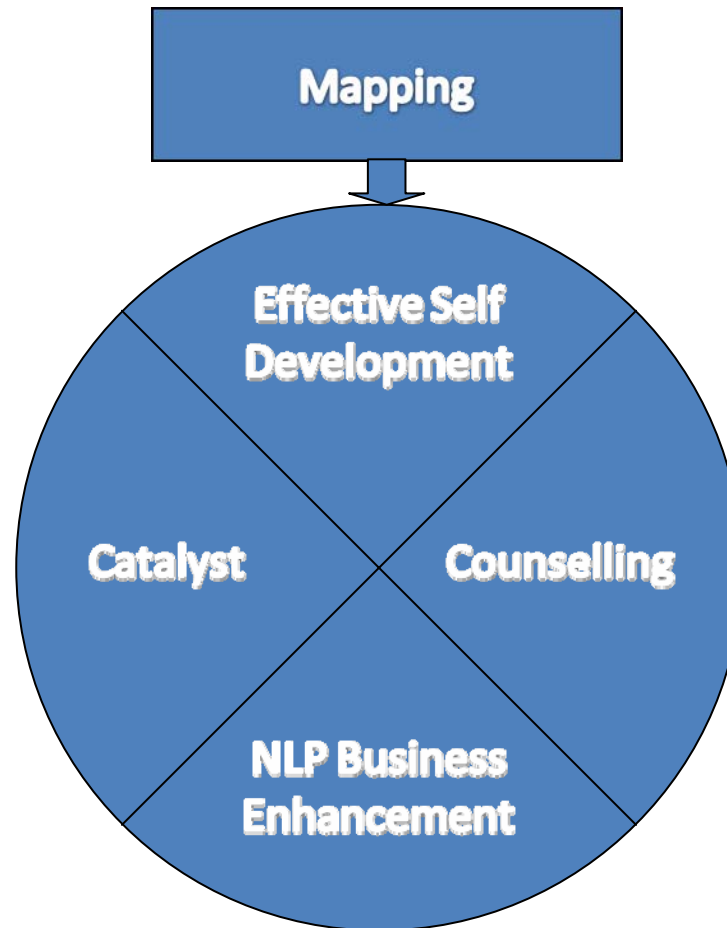




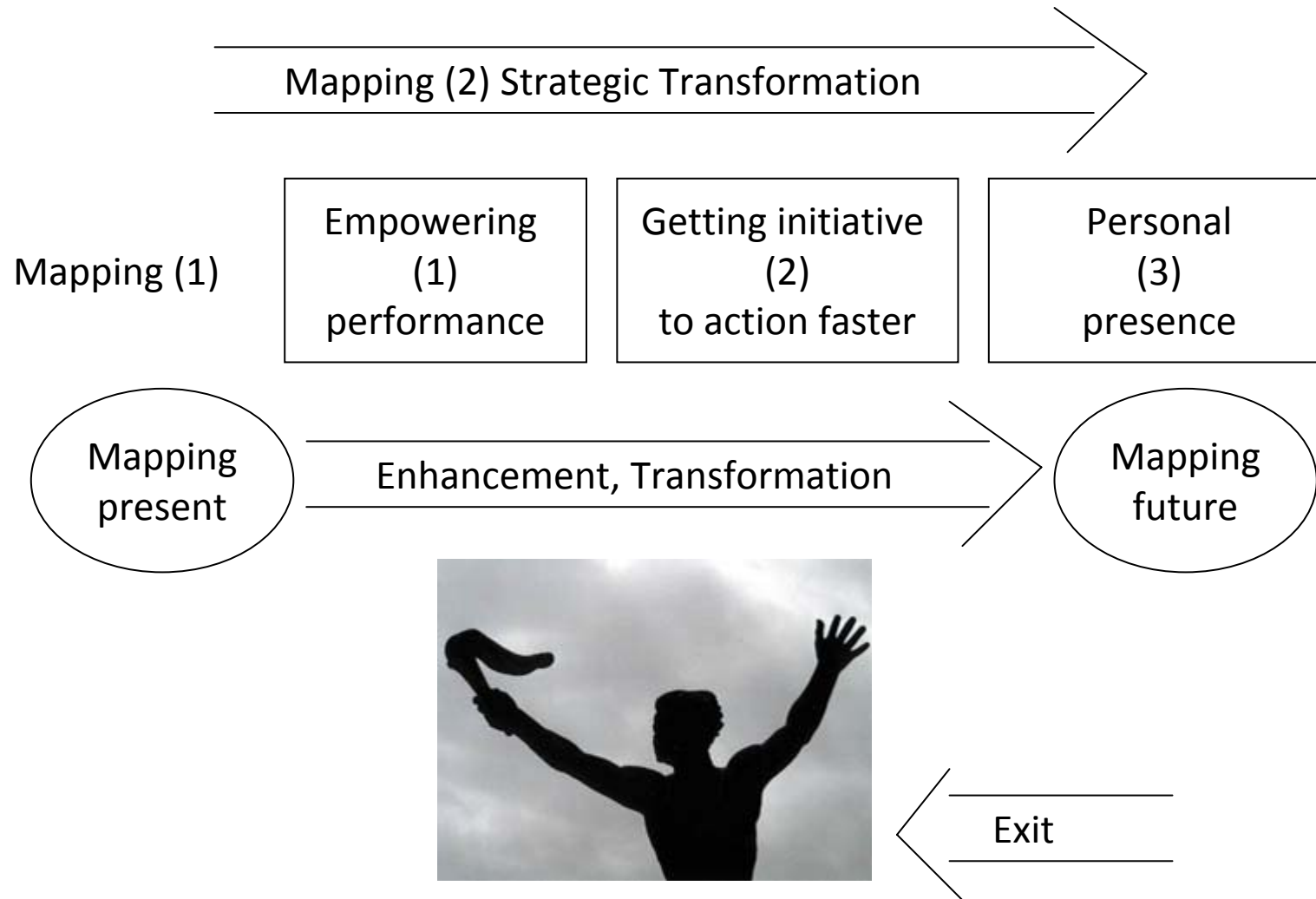
Human Capital Value in Action!



Mapping your Human Capital Value



Developing your Human Capital Value



Sci&Art of Human Capital Value

NLP+ Business Enhancement

Empowering Personal Performance

- Performance Coaching, Motivation & State Management
- Creating Advanced Influence & Communication

Getting Initiatives to Action Faster

- Business Insight, Creativity, Modelling & Innovation
- Organisational Readiness, Facilitation and Change Management

Personal Presence

- New Leadership from Within
- Charismatic Presentations

Some thoughts

- Old ways of accounting do not account for intangible values of the New Economy
- High Value Knowledge Workers are a technical premium asset
- Human Attitudes and Emotions drive financial results
- Success is about personalities not polices

Conclusion

**It reaffirms the importance of
personal character in leading a firm
to GREATNESS**

Appendix

21 ways to Account for Human Asset

Sveiby Categorized Market Capitalization Methodologies

Which use the difference between an organization's market capitalization and its stockholder's equity as the value of not only its Human Assets, but moreover, its total Intellectual Capital:

- a. Tobin's Q [advocated by Stewart (1997) and by Bontis (1999)]: "The 'Q' is the ratio of the stock market value of the firm divided by the replacement cost of assets. Changes in 'Q' provide a proxy for measuring effective performance or not of a firm's intellectual capital"
- b. Investor Assigned Market Value [advocated by Standfield (1998)]: This approach "takes the Company's True Value to be its stock market value and divides it into a total of Tangible Capital plus Realized Intellectual Capital plus Intellectual Capital Erosion plus Sustainable Competitive Advantage"
- c. Market to Book Value [advocated by Stewart (1997)]: "The value of intellectual capital is considered to be the difference between the firm's stock market value and the company's book value"

Sveiby Categorized Return on Assets Methodologies

Which compares the organization's pre-tax return on tangible assets to the industry average. The difference is multiplied by the organization's average tangible assets to compute the average annual earnings from the organization's Intellectual Capital. Dividing the Intellectual Capital earnings by the company's average cost of capital or by a reference interest rate results in an estimate of the value of an organization's Intellectual Capital.

- a. Economic Value Added [advocated by Stewart (1997)]: The value of Intellectual Capital is "calculated by adjusting the firm's disclosed profit with charges related to intangibles. Changes in Economic Value Added provide an indication of whether the firm's Intellectual Capital is productive or not."
- b. Human Resource Costing and Accounting [advocated by Johansson (1996)]: This methodology "calculates the hidden impact of Human Resources related costs which reduce a firm's profits. Adjustments are made to the P & L. Intellectual Capital is measured by calculation of the contribution of human assets held by a company divided by capitalized salary expenditures."
- c. Calculated Intangible Value [advocated by Stewart (1997)]: This approach "calculates the excess return on hard assets then uses this figure as a basis for determining the proportion of return attributable to intangible assets."
- d. Knowledge Capital Earnings [advocated by Lev (1999)]: "Knowledge Capital Earnings are calculated as the portion of normalized earnings over and above expected earnings attributable to book assets."
- e. Value Added Intellectual Coefficient [advocated by Pulic (1997)]: The approach "measures how much and how efficiently Intellectual Capital and capital employed create value based on the relationship of three major components: (1) capital employed; (2) Human Capital; and (3) structural capital."

Sveiby Categorized Scorecard Methodologies

Which identifies the various components of Intellectual Capital and presents them in terms of indicators and indices in visual scorecards and graphs:

- a. Human Capital Intelligence [advocated by Jac Fitz-Enz (1994)]: By use of this methodology, "sets of human capital indicators are collected and benchmarked against a database."
- b. Skandia Navigator [advocated by Edvinsson and Malone (1997)]: "Intellectual Capital is measured through the analysis of up to 164 metric measures (91 intellectually based and 73 traditional metrics) that cover five components: (1) financial; (2) customer; (3) process; (4) renewal and development; and (5) human."
- c. Value Chain Scorecard [advocated by Baruch Lev (2001)]: "A matrix of non-financial indicators in three categories according to the cycle of development: Discovery/Learning, Implementation, and Commercialization."
- d. IC-Index [advocated by Roos, Roos, Dragonetti and Edvinsson (1997)]: This approach "consolidates all individual indicators representing intellectual properties and components into a single index. Changes in the index are then related to changes in the firm's market valuation."
- e. Intangible Asset Monitor [advocated by Sveiby (1997)]: "Management selects indicators, based on the strategic objectives of the firm, to measure four major components of intangible assets: (1) growth; (2) renewal; (3) efficiency; and (4) stability."
- f. Balanced Score Card [advocated by Kaplan and Norton (1992)]: Using this approach, "a company's performance is measured by indicators covering the four major focus perspectives: (1) financial perspective; (2) customer perspective; (3) internal process perspective; and (4) learning perspective. The indicators are based on the strategic objectives of the firm."

Sveiby Categorized Direct Intellectual Capital Methodologies

Which identifies the components of Intellectual Capital and then directly values them in financial terms either individually or in the aggregate:

- a. Technology Broker [advocated by Brooking (1996)]: "Value of Intellectual Capital of a firm is assessed based on diagnostic analysis of a firm's response to twenty questions covering four major components of Intellectual Capital."
- b. Citation Weighed Patents [advocated by Bontis (1996)]: "A technology factor is calculated based on the patents developed by a firm. Intellectual Capital and its performance is measured based on the impact of research development efforts on a series of indices, such as number of patents and cost of patents to sales turnover, that describe the firm's patents."
- c. Inclusive Valuation Methodology [advocated by McPherson (1998)]: This methodology "uses hierarchies of weighted indicators that are combined, and focuses on relative rather than absolute values. Combined Value Added = Monetary Value Added combined with Intangible Value Added."
- d. The Value Explorer [advocated by Andriessen and Tiessen (2000)]: This approach is an "accounting methodology proposed by KMPG for calculating and allocating value to 5 types of intangibles: (1) assets and endowments; (2) skills and tacit knowledge; (3) collective values and norms; (4) technology and explicit knowledge; (5) primary and management processes."
- e. Intellectual Asset Valuation [advocated by Sullivan (2000)]: "Methodology for assessing the value of Intellectual Property."
- f. Total Value Creation [advocated by Anderson and McLean (2000)]: This approach reflects the results of "a project initiated by the Canadian Institute of Chartered Accountants. Total Value Creation uses discounted projected cash-flows to reexamine how events affect planned activities."
- g. Accounting for the Future [advocated by Nash (1998)]: "a system of projected discounted cash-flows. The difference between the Accounting for the Future value at the end and the beginning of a period is the value added during the period."