



POINT OF VIEW

Does Human Capital Matter?

by Ken Pfligler, MBA, M.A. and Glenn DeBiasi, Ph.D.

You may think the answer to this question is obvious. Of course your employees matter. They produce the organization's results based upon the services and products that they provide. However, many organizations rely so heavily and exclusively on the financial statement that decisions about people are made based on cost criteria rather than value. After all, the only representation of people on a financial statement is their cost; value is not apparent. Many times, money is not spent on human capital because it is regarded as an expense when in reality, investment in human capital has the potential for increasing an organization's business performance.

In a recent study, *Does Human Capital Matter? A Meta-Analysis of the relationship Between Human Capital and Firm Performance* published in the *Journal of Applied Psychology* (May 2011) provides important insights into human capital. Their key findings include the following:

- Strong human capital (knowledge, skills and abilities embodied in people) drives operational performance such as customer satisfaction and retention, cost performance, and productivity. Since not all jobs have the same impact, this is particularly true for strategic jobs (i.e., jobs that have the most impact on the strategy. These jobs can be found at all levels of the organization).
- Human capital relates to performance at $r = .21$. ***"We interpret this to mean that increasing human capital by one standard deviation increases performance by .21 of a standard deviation."*** What does this mean? An example from the food service industry shows that those companies who have retained experienced executives have a much higher Return on Assets (ROA).
- The link between human capital and organizational performance is strongest when the knowledge and skills are specific to that organization and its unique strategy and culture, rather than general. In fact, the results are 71% larger when organization-specific skills are compared to general skills. Organization-specific skills produce greater value relative to their costs and they are difficult for competitors to purchase. General talent can be bought on the job market. But employees who know your customers, your culture, your processes, your business strategy, and most importantly your brand produce more unique value. This means that organizations that invest in acquiring the right people, continuing their development on skills unique to your organization and engaging and retaining them will have a competitive advantage. ***"For managers, the results also suggest that they should strive to develop a long-tenured workforce whose skills are tied to the firm's unique context."***

The researchers conclude with ***“As the global economy becomes increasingly knowledge based, the acquisition and development of superior human capital appears essential to firms’ viability and success. For managers, our results leave little doubt that to achieve high performance, firms need to acquire and nurture the best and brightest human capital available and keep these investments in the firm.”***



How can you obtain the best return on investment in people? To answer this you must clarify your value chain, beginning with the customer and working back to the employees:

- What must your organization do well in order to deliver its customer value proposition (called execution capabilities)? Competitive advantage is achieved when you provide something that your customers value and do so better than do your competitors. Part of that value is delivered through your people. Examples of execution capabilities include customer service, innovative products, and low cost of services and products.
- Which positions in the organization have a disproportionate impact on these execution capabilities (called key jobs)? While all jobs are important (or you wouldn't need them), some have pivotal strategic impact. Investments in people who hold these key positions have a higher ROI.
- How do you align human resource policies, systems and processes to produce top talent in key jobs? How do you create an engaging environment, one that encourages employees towards discretionary effort and ambassadors of your brand?

About the authors:

Ken Pfligler, MBA, M.A., Director TNS

TNS Employee Insights helps clients build competitive advantage through its people. TNS provides leading companies with the right information to manage a strategically important and complex resource. Companies have a sophisticated, in-depth understanding of their financial resources. We provide the equivalent for your human capital. We provide you with insights into the level of engagement of your workforce, which factors can be used to make improvements, and which improvements will impact customer satisfaction, productivity, retention and performance.

Glenn DeBiasi, Ph.D. President Leaderfit

Glenn DeBiasi has 20+ years in executive human resource positions. He has served as Board Chair for a small non-profit and was on the Board of Directors for a hospital. He holds a Ph.D. in industrial/organizational psychology from Michigan State University and received his SPHR certification from the Society for Human Resource Management. He is a member of the American Psychological Association, and the Society of Industrial/Organizational Psychologists.