July 2016 Newsletter:

Why Companies Should Treat Their Human Capital as Financial Capital 2016

Within the span of three decades, America's workforce has witnessed a phenomenal transition of power between employers and employees. Prior to the introduction of technology being a primary facet of everyday life and globalization posing as a threat to employment, employers and employees tacitly engaged in a loyalty contract. Essentially this loyalty contract was founded under the assumption that the employer would provide an employee a career with the security of benefits, steady pay, and some sort of pension plan. In return, the employee would remain with the company for the lifetime of their career. Loyalty contracts were common practice in many organizations and were effective. They were not faced with the problems that many companies see today, such as talent shortages, retention issues, etc. Instead, they were comforted by the knowledge that the majority of their employees would remain with their companies, and, if under any circumstance, they were underperforming, there would be another qualified applicant that would happily accept the position. Unlike today, companies were not engaging in wellness programs, employee engagement, employee satisfaction surveys, and organizational development.

Fast-forward a few decades and start-ups to well-established organizations are inundated with catchy buzzwords that are geared toward, at least in theory, supporting the employee base in an effort to make the company, as a whole, more productive. The manner in which professionals treat their career has changed as well. Very few employees remain with the company they first begin with for longer than a few years. Loyalty contracts are dead in the eyes of the current workforce because many have witnessed the side-effects of having a globalized economy and the technological resources to support it. Instead of counting on their employer to provide them with continuous employment, many professionals have embraced the fact that their employment with any given company is temporary and last only as long as the company can meet their needs.

Similarly, companies can only keep an employee as long as they are meeting the business needs, and certain occasions may call for the dismissal of their services because of budget-cutbacks, outsourcing, or elimination of the position entirely. Both parties are equally aware of the exchange and have learned to embrace this temporary-employment relationship model. Alternatively, they are equally aware of the damaging consequences this practice has. On one hand employees are distrustful of their company because a palpable fear exists in the workplace that their job may be in jeopardy at any given time. On the other hand, they remain committed to their jobs, but not because they are loyal to the employer, but because it facilitates their growth and experience to be able to eventually secure another position elsewhere once a circumstance arrives that necessitates their exit from the company. Likewise, companies recognize that they are not undeserving of distrust because the direction of the global economy has challenged them to end loyalty contracts out of the need to survive in an ever-changing business landscape.

However, they also understand that in order to remain competitive they need superior talent to elevate their business above the competition. Faced with this paradox, companies have resolved to engage in initiatives that are designed to espouse the benefits of working for them because they are cognizant of the fact that if they were to blatantly reveal their motives, i.e. to earn greater ROI, it would derail their efforts to attract viable talent. Interestingly, while both employer and employee are aware of the structure of their relationship, it is implicitly expected that neither reveal their true intentions for obliging to enter an employment relationship. That is not to say that employee engagement programs and similar agendas are not genuine or valuable. Well executed initiatives certainly hold their weight and can offer legitimate contributions toward a company's bottom line. In spite of this, it is time that companies and employees alike realize that the dynamics of the workplace have evolved to a point that it is an economy on its own.

Specifically, times where employees remained with a company for a lifetime have expired, and, instead employees switch companies on at a modest pace to meet their career needs. Similarly companies have changed the manner in which they treat their employees. Each participating party has negotiating power to work to get their needs met. Employees have their knowledge or human capital, which offers the company a service they need, and in exchange, the company provides the employee with financial capital. While this concept is not new, as technology and globalization have come to be dominating forces in the corporate world, it has required that companies not only offer financial capital in order to purchase human capital, but to include benefits and other untraditional areas of compensation to remain competitive for top-talent in the marketplace. Companies that have embraced the fact that relying upon financial incentives alone will only take you so far have a competitive advantage over their counterparts. Primarily because they attract talented human capital interested in providing their services to their company in exchange for money, recognition, and other intrinsic rewards they may not find elsewhere. If companies seek to achieve greater ROI through their employees, it may be wise of them to recognize their employees as human capital, and not just an employee. Why? Companies guard their financial capital very carefully and ensure that it is allocated, utilized, and managed efficiently.

The same concept may be applied to human capital, with the only difference being that while financial capital is owned, people are not, and thus, allowances need to be made that recognize the temporary nature of the relationship; and while it may not be permanent it is important to earn the greatest return on the investment while it is in your possession. Popular program initiatives geared toward increasing productivity are relevant to the workplace, but even more so, companies need to change their perception of an employee. Once a company begins to treat their human capital as just that, capital, it allows them to ensure that it is allocated, utilized, and managed efficiently, thereby yielding a greater ROI from the workforce.