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## **Firms should rethink annual business report to define talent equity**

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A company's tangible assets such as equipment and furniture depreciate annually, with the negative effect on the bottom line listed as a standard projection in profit and loss statements.

A corporation's human assets (intellectual property and innovative ideas), however, have the potential to appreciate as employees gain knowledge and experience, but remain absent from financial projections in spite of the measurable impact on profits.

Financial reports use standard accounting methods to calculate dollar amounts for tangibles, but assessing human resources requires less traditional metrics. With the growth of the knowledge economy, the traditional annual business report may not be enough to provide the real picture.

Tacit knowledge is the new gold. Since, on average, 70 to 80 per cent of tacit knowledge is walking around in the heads of the workforce, corporations often do not have as much human capital equity as they think. This is especially true when that knowledge starts to walk out the door faster than it can be developed or replaced. The net result is the system soon discovers that something is missing. But since tacit knowledge is an intangible, it is difficult to define exactly what the something is. It may be impossible to calculate an exact dollar value for human capital equity with the same precision as a traditional line item in a profit and loss statement.

However, there is an opportunity to evaluate risk that can predict the current strength or risk to the organization's human capital equity.

The concrete expenses related to turnover represent about nine per cent of revenue, according to *Calculating the High Cost of Employee Turnover*. However, a greater risk is loss of highly competent knowledge workers. A company's best performers usually have been at the firm for three to 10 years and are between the ages of 25 and 35, as reported in *Fast Company*. The combined firm-specific experience of these skilled professionals forms a core of talent equity that secures repeat business from clients.

Talent equity includes implicit knowledge, tacit knowledge and skills. Research indicates that only 20 per cent of a company's practices and procedures are written down; 80 per cent of the knowledge in an organization is in the heads of its workforce. If talent begins to leave faster than a company can replace it and develop new people,

systems begin to break down because current staff cannot anticipate needs and the organization cannot continue to meet its obligations.

Traditional industries like banking, which historically had people lining up for open positions, now must compete aggressively both to sign new talent and to retain great employees. Leaders who regard these line items as investments rather than expenses implement programs to assure that talented people add value annually and stay motivated to remain with the firm long enough to offset startup and ongoing costs of employment.

Because position profiles are created to fill specific needs of an organization, a person begins to return value to a company when they are able to perform all defined work functions adequately. Each year, the potential return on investment in a human resource grows exponentially as knowledge and experience are added.

Two primary measures of performance are high productivity and quality, which depend on people being motivated on a daily basis and staying long enough to become best performers. Proven strategies for building on the assets of talent include:

- Increasing information quality.
- Assessing management effectiveness regularly.
- Structuring career development.
- Succession planning.
- Retention and recognitions programs.

As outlined in Key Account Management and Planning, companies that "churn and burn" workers may spend less in the short term, but companies that invest in their talent build long-term profits.

Underestimating the value of human resources affects the total worth of the corporation over the long term.

