

CREELMAN LAMBERT

Human capital is useful, but it's not a thing

BY DAVID CREELMAN (2013)

We all throw around the phrase “human capital” because it is convenient. However, casual use of the term leads us to think it is a thing; and that thing ought to be weighed and measured. What we really mean by human capital is that we know the talent in an organization and how it is managed is essential to success. It is like an physical asset that in that it creates value. However, it is still not a thing. It’s a catchall phrase for the many different things related to people management that affect success.

Ludwig Wittgenstein, thought hard about the meaning of words and he provides the key insight we need to make sense of “human capital”. What matters is how the word is used. In this case I can be a little more pointed in saying that we can understand the phrase “human capital” by asking *what do we want to do with it?*

As an *investor* what you want from human capital is a set of indicators as to whether a company will be more or less successful than it has been in the past.

An *investor relations* leader wants to tell investors “Here is evidence our employees are engaged. Here is evidence we can attract the best talent. Here is evidence that we have strong leaders.” The investor wants to test those claims because if employees don’t care, if the best talent is at the competitor and leaders are lousy then there is reason to suspect profits and revenues will fall.

The *board and CEO* will be interested in the same set of indicators so that they can fix human capital issues before they lead to financial problems.

Human capital is useful because human capital indicators are predictive.

How many different indicators are we talking about? There are a few that are relatively easy to understand and measure: leadership quality (as perceived by the people who work for those leaders); leadership depth; employee engagement; retention, and investment in training. There are a great many other indicators around organizational structure, culture, employment brand, alignment and agility (to name a few that are top of mind).

Where does this leave us? I think investors should ask organization to report on those few indicators that are relatively easy to understand and measure. All stakeholders should look beyond those measures to get as deep an insight as possible on human capital factors that will affect success. If we think of human capital as an umbrella term for a broad set of useful indicators we will be ok. If we mistake it for a solid “thing” then we will be head down an unproductive track.

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