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## **VALUATION OF HUMAN CAPITAL**

**By Mark Bregman**

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How much are your people really worth? In dollars?! On your books?

Employers often say “our people are our biggest asset,” but do corporate actions reflect this philosophy? Headcount is usually cut before hard assets like buildings and equipment. Often, employers lay off their highest paid, longest tenure (and perhaps most valuable) workers first. The P&L improves short term, but should that really equate to higher value on the balance sheet?

Much has been written about “valuation of human capital,” but it is challenging to specifically assess a dollar value of people for accounting purposes. Accenture, Ernst & Young, Taleo, and others have proposed various ways to value people, talent and contributions. However, the average CEO, when asked “What are your people really worth” would probably say “I have no idea.”

Every key employee has the potential to either save money or make money for his/her company. Such savings and profits represent tangible value – at the multiple that applies to that company. So, someone who saves \$200,000 for a small, privately held company might be worth 3x, or \$600,000 as an asset to that company. At a larger, publicly traded firm, that same \$200,000 might be worth 12x, or \$2.4 mil. in asset value. Other factors that could translate into tangible value are customer relationships, creation or advancement of the company’s “brand”, productivity improvement of the executive’s team, etc. Many of these things are part of what is often referred to as “good will”, the *intangible* assets of a company, which can run as high as 35% for established firms. I submit we as leaders have to know the value of all our so-called intangible assets. Here’s a challenge to the financial wizards: Figure out a simple formula that even a small business could use. Shouldn’t our equity go up when we have selected the most valuable people to hire and retain?