TOMORROW'S CHALLENGES

ARE PEOPLE REALLY A COMPANY'S MOST IMPORTANT RESOURCE?

EMPLOYEES ARE ON THE WRONG SIDE OF THE BALANCE SHEET

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It happens regularly all over the world and in every company. The CEO addresses his collaborators: "You are the most important resource at this company". He believes it, and he is right. His collaborators listen politely but are skeptical. They are not wrong. They know that during the slightest economic downturn the "most important resource of the company" will immediately pay the price for it.

At the heart of the problem is an accounting peculiarity. The employees of a company appear in the balance sheet as a cost and not as an investment. In other words, they are on the wrong side of the balance sheet. If a company employs 100 geniuses or 100 fools, they are accounted in the same way, namely as a cost. Such an approach completely underestimates the investments made in the know-how as well as the professional and individual development of a person. It also ignores the loss of experience and skills when that person leaves the company.

Could it be done otherwise? From an accounting point of view, the approach is based on two assumptions. In the first place, employees are excessively mobile. The company's most important resource leaves the company in the evening at six o'clock to, perhaps, return the following morning at eight o'clock. How can you give an accounting value to a "company's most valuable asset" when it wanders the obscure streets of your city at night? Historically, this was why employees were paid on a weekly, then a monthly basis; it was to make sure they came back.

In addition, and this is the central idea, employees do not belong to a company. Therefore, they cannot be accounted for as an asset in the same way as a machine or a building. It is certainly correct, but it cultivates a deep ambiguity regarding the value of people. Several economists prefer to use the term "human capital". But it is not the way employees are accounted for in the valuation of companies. Stock exchanges always favor companies with the least employees compared to turnover.

For example, Google has a market capitalization of USD $576 billion and employs 72,000 people. Facebook is worth USD $390 billion for a workforce of 15,700 employees. In comparison, General Motors who employs 215,000 people is worth $56 billion, and Ford who employs 99,000 people is valued at only $49 billion. It is not only the size but also the competence which counts. Bill Gates pointed out: "What would Microsoft be worth if it was sold without its collaborators; one dollar?"

Nevertheless, accounting standards prevail. When a company downsizes its workforce, the market considers that it reduces its costs and therefore the share price goes up. It is absurd because in fact the company loses management competencies and personal skills, and should be less valuable.

The monetary aspect is not the only one to consider. There is a value which stems from a shared culture between the company and the collaborators: attitudes, written or unwritten rules and a sense of mutual respect. To have value, we must feel valued. It implies a sense of intellectual affinity and even emotional closeness which must permeate every level of the company. As Franklin D. Roosevelt once said: "A good leader cannot go too far from followers".

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