Soft Assets Produce Big Dividends.

Managing the Assets Entrusted to Managers and Supervisors.

The assets entrusted to managers and supervisors in order to achieve business unit goals and organisational objectives comprise both 'hard' and 'soft' assets. This paper identifies the key soft assets and argues the significant impact they have on the bottom line. The research clearly illustrates the success of those organisations that pay serious attention to their soft assets!

Hard Assets

'Hard' assets are assets that are able to be capitalised and commonly measured in the balance sheet or profit and loss statements such as:

Financial Assets

- Brands & Goodwill (balance sheet)
- Buildings & Equipment (balance sheet)
- Finance & Debtors (balance sheet)
- Land & Investments (balance sheet)
- Patents & I.P. (balance sheet)
- Stock & raw materials (balance sheet and profit & loss) and, of course
- Labour (profit & loss)

Non-Financial/Intangible Assets

- Channels/Distribution Network
- Markets/Customers/Clients
- Operational Competence
- Products/Services Competence & Quality
- Supply Chain relationships and competence.

Soft Assets and the Bottom Line

These 'hard' assets, don't of themselves, execute strategy, make sales and so forth, it takes people to do that. People are the 'soft' assets organisations purchase in order to execute strategy.

Mismanagement of these 'soft' assets can have very hard consequences just as there are big payoffs in managing people well. Consider the following quotes:

- Watson Wyatt Worldwide: 'the primary reason for organisational profitability is the effective management of human capital.'

- 'Effective, integrated human capital management can result in a **47%** increase in market value.' (Gachman & Luss 2009)

- '(the) Top 10 enjoyed a **391% ROI** in management of their human capital.' (Becker & Huselid. 2001)

- 'There are clear links between our respondents' level of engagement, their focus on customers, and aspects of their organization's financial and operational performance across a number of areas.' (Towers Perrin.2003)

- 'Human performance leaders demonstrated stronger performance than non-leaders in total return to shareholders over the short and long term, as well as in the difference between their return on invested capital and their weighted average cost of capital.' (2004, Brakeley, Cheese & Clinton).

and...just in case there is any remaining doubt about the importance of people:

- There are 'Strong correlations between the activities of these training leaders and excellence in business performance. Companies with the best educational units reported significantly better revenue and profit growth viz:

  - ✓ Productivity (measured by sales per employee) **27% greater**
  - ✓ Revenue **growth 40%** higher
  - ✓ Net **growth 50%** greater" (2005. Brakeley & Meister).

Key Soft Assets

Managers are entrusted with key soft assets. These don't appear in the financial statements (other than the cost of time and talent) yet they are the keys to turning off the switches in people. These assets include:

1. **Time & Talent**

   Organisations purchase in time and talent in order to execute strategy. Purchase costs-per-minute for a wage of around $50,000 is around 55c-60c per minute. A minute of time can be used only once. The cost is incurred irrespective of the outcome achieved by its use or the lack of it. Wasted time incurs an unnecessary cost for the organisation. Supervisors and managers have managerial responsibility to ensure that time wastage is minimised.

2. **Staff Goodwill**

   Most employees start off their day wanting to do a good day's work. Regretfully, some conclude their day's work believing that they have been messed about by fools. This compromises a measure of good-will which, in turn, compromises productivity and engagement. Supervisors and managers have direct responsibility to manage the good-will of their staff.

3. **Culture**

   The competency of the culture in a work unit has a major impact on the productivity the unit achieves. Functional cultures are more productive than dysfunctional cultures. As the dominant alpha's in their business unit, supervisors and managers set the standards for the unit. The better or more functional the standards, the better the relationships within the group. The better the relationships, the better the group productivity.

4. **Relationships**

   The degree of functionality of the relationships between a group is the single biggest determinant of its productivity. The functionality of relationships correlates directly with the levels of emotional intelligence within the group. Business units pay a massive price for dysfunction, both financial and emotional. Again, managers and supervisors have responsibility for the quality/functionality of the relationships within their business unit.

5. **Psychological Contract**

   Each person has sets of beliefs and expectations that define their relationship with their organisation. When organisations nurture and deliver on these beliefs and expectations people get engaged and committed. When they aren't delivered the relationship the relationship starts to fracture. This has a major impact on employee engagement. Supervisors and managers are the human interface between the organisation and its people.

6. **Significance and Pride**

   Every person, even the most humble, has a need for their significance as an individual to be recognised. Organisations, because of their hierarchical/feudal nature, often treat people differently based on their organisational position. The reality is that we are all equal only different according to our individual talent and contribution. A person can't give more than 100% of their best efforts irrespective of where they are positioned in the pecking order.

   It is important that each person understands the significance of their role (and its tasks and activities) and understands its contribution to achieving organisational goals and objectives. The sum of an organisation's success is made up of the contributions of each of its members – some contributions will be greater than others, but the whole will remain greater than the sum of the parts.

   The contribution each person makes according to their talent, abilities and effort should be recognised. People, who have their significance recognised, feel better about themselves and have the opportunity to take pride in their contribution. Delivering on significance and pride can unlock energies and motivation, just as their denial will kill motivation. Supervisors and managers have a major responsibility to deliver on and nurture this crucial asset.

7. **Processes and Systems**

   All work is done through a process and system. Obviously, some processes and systems are far more competent than others. The process and system competency is a major asset entrusted to supervisors and managers. Often, supervisors and managers are captives of the system rather than its managers – they are working in it rather than on it.

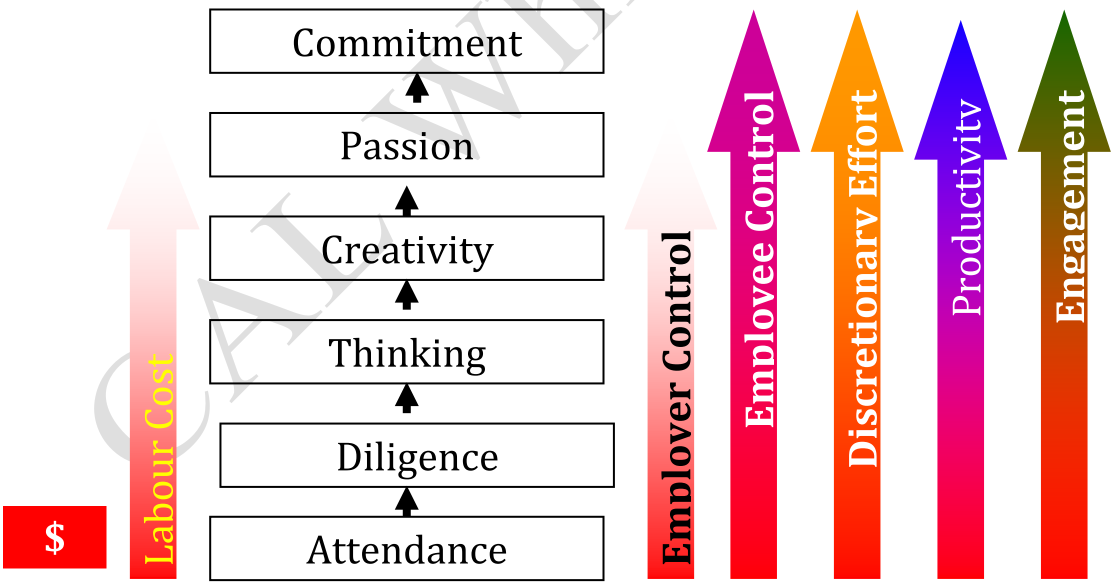
The best batsman in the world will struggle for runs on a poorly prepared pitch! Often supervisors and managers send their people out to bat with one hand tide behind their back. When this happens, productivity is compromised and there are also emotional impacts. Supervisors and managers are responsible for the management of this crucial assets that competent processes and systems represent.

These 7 'soft' assets have 'big-time' bottom line impacts!

The impact of managing these 7 'soft' assets well is visually depicted in the following diagram. Essentially, for the same $$ cost, two very different outcomes can be achieved.

The better the soft management the more an employee will increase their discretionary effort resulting in higher productivity and engagement – all for the same $$ cost.

Whilst an employer can compel attendance they certainly can't compel creativity, passion and commitment. These are controlled by the employee, who decides the extent to which they want to get involved.



The same wage costs are incurred but for totally different outcomes. It is within the power of supervisors and managers to assist their staff to turn on their thinking, creativity, passion and commitment. It is also very easy for supervisors and managers to de-motivate people. There is an anecdotal saying that 'people join organisations but leave managers', these seven assets may not appear on the balance sheet but they have greater bottom-line impact.

The College for Adult Learning provides a suite of Human Resource Management and Leadership courses as well as individual coaching models that can help Managers and Supervisors enhance their people management skills.

Contact The College for Adult Learning for more information.

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Michael is a professional & academic in the field of human resources management (HRM). He is the CEO and founder of *Human Resources Business Partners HRBP* a worldwide business and HRM consultancy focusing on global human resources challenges and solutions. Michael is also a part-time prac-ademic (as he likes to refer to think of himself) supporting post graduate HR Masters students in their studies and research projects.

He is known in the field as a speaker and writer on global HR trends and issues and more recently has developed a comprehensive set of HR metrics and measures designed for ease of use by busy HR practitioners. He is the author of over 50 articles and columns and has developed a large range of tools for HR professionals.

Michael is working in partnership with the College for Adult Learning to provide a range of consultancy services and specialised training development options for HRM Practitioners.

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