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HUMAN CAPITAL, A DRIVER OF SUSTAINABLE PERFORMANCE FOR COMPANIES

In 1965, the future Nobel Prize winner, Gary Becker, theorised this notion of human capital as «*the sum of the productive capacity that an individual acquires by accumulation of general or specific knowledge and know-how*». Thus, from the outset, human capital and productive capacity are associated. Therefore, this justifiably raises the question of the impact of this capital on the performance of a company or country.

EXPERT OPINION

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What was an experimental concept in 1965 has now become **a major concern**. Modern economies are more focused on innovation, quality and creativity. It is therefore human capital that is becoming a key factor of success, more than physical capital. The irresistible growth of the knowledge economy will continue to support and amplify this structural trend. The same is true at the micro-economic level, with the digitalisation of services and companies calling for a continuous adaptation of this capital.

TRAINING THROUGHOUT LIFE

The work of our Chief Economist, Mathilde Lemoine, leads to the conclusion that «*the development of human capital is essential for the sustainability of a company and an economy*» and at the same time that «*it is its accumulation alone that will prevent the natural decline in the level of knowledge and skills, and thus enable long-term growth.*»

It is therefore necessary to go **beyond the framework of initial education alone** and to address the need for ongoing training throughout life.

This is why, in particular, there has been a strong increase in spending on training in the workplace over the past decade. According to data provider Statista, spending rose from $244bn in 2009 to $370bn in 2019, an increase of more than 50%.

GOOD STUDENTS STAND OUT

In concrete terms, a company that invests in the skills of its employees and their working conditions benefits from strong positive externalities.

The first is an **improvement in productivity**. Ongoing training helps combat the obsolescence of human capital, improve know-how, facilitate adaptation and ultimately generate productivity gains.

Investing in human capital also means **investing in improving working conditions** and more generally in the well-being of employees. The resulting satisfaction of employees is a powerful driver of performance for the company: motivation, commitment, sense of belonging, etc. A study by the English University of Warwick showed that corporate well-being increases productivity by 12%. Similarly, Mozart Consulting estimates that the cost of discontent in the workplace would be €14,580 per year and per employee.

Lastly, the attention paid to its employees will depend on the company's ability to attract and retain talent, and therefore maintain and develop its human capital. This is how a virtuous circle is created: employee development, team stability, increased operational performance enabling the financing of internal programmes.

This virtuous circle, we see it empirically. Companies standing out through a sustainable effort to train their employees tend to outperform their competitors. This is particularly the case for companies such as **Hermès** or **Accenture**. These companies have built their success on the excellence of the services they sell, whether they are services or physical goods. **This culture of excellence is the result of a policy of continuous development of their human capital, clearly setting them apart from their peers.**

Hermès provides an average of 30 hours of training per year to each of its employees, for all categories of employees. At the same time, the luxury group has formed local partnerships with schools or academies in the regions where it operates.

The consulting firm Accenture invests more than 2% of its turnover in training, representing $2,000 per employee each year. A champion of mobility and internal promotion, 88% of its employees describe Accenture as a «*Great place to work*».

Hermès and Accenture have demonstrated their ability to grow faster than their addressable market year after year. For example, Hermès' market share has doubled over the last 10 years.

Another striking example is **AIA**, an insurance giant in Asia. The company is recognised by its employees as a renowned employer: ranking in «*Great place to Work*», Top Employer, Leading Graduate Employers, etc. At the same time, it offers an ambitious training policy, with an average of 15 hours of training per year and per employee. In this context, it is interesting to note that the productivity of its agents is three times higher than that of its Chinese competitors.

HUMAN CAPITAL TO SUPPORT PERFORMANCE

This operational superiority naturally contributes to the financial performance of companies. Much academic research shows the correlation between human capital management practices and financial performance. The Watson Wyatt study shows an average performance of 10% per year for companies with HR best practices compared to +7% for the average cohort.

Another authoritative study in the sector was conducted by the professor of finance at the London Business School, Alex Edmans, over a 25-year period and adjusted for size and sector biases. Its conclusions are striking: the average alpha of companies that stand out positively in terms of managing their human resources is 3.5% per year.

These studies validate **the causal link between the quality of HR practices and the financial performance of companies over the long term**.

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