Why Leaders Should Treat Talent Risks and Future Potential Like Investments

Most leadership teams lack the discipline to perform routine "pricing" or consideration of the risks to their workforce and the potential value of those employees. Further, very few employers spend time or effort on long-term mitigation or development plans that are necessary for the organisation's viability and growth. This type of narrow thinking is short-term, impractical, and harmful. What leaders should do, as an ongoing priority, is correctly identify the top workforce threats and future potential in advance and implement the requisite plans to address the issues.

The Underlying Problems

One of the most common misconceptions of many leadership teams is that they perceive and view workforce risks and future potential mainly in terms of "tangible" and "current value" items. Examples include payroll costs, hiring and onboarding expenditures, employee development programmes, retention efforts, severance pay, benefits, perquisites, rewards, and other such items. This outdated and short-sighted view makes it even more difficult for leaders to correctly "price" the true risks and potential future value of their talent for two reasons:

- When business leaders focus mainly on costs in order to price something, they lose sight of the overall potential value of anything their organisation produces or possesses, for example, their workforce. That workforce, comprised of talented individuals, is an investment and positive component in achieving company goals.

- They fail miserably to pay critical attention to considering future potential value and how the workforce, when motivated and engaged, can contribute positively when aligned with the organisation's mission.

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Beyond Costs

To address the first concern, consider this point: If your organisation has a product or service to sell that costs $10 to produce or provide to your customers, would you sell it at $10 per item or less? The answer should obviously be no, of course not. Clearly, you will sell your product or service with a certain margin on top of your costs, whatever percentage is decided upon. In other words, the cost amount plus the margin percentage results in the appropriate selling price for your product or service. In fact, that percentage margin difference is the potential “intangible value” of what you sell—that is, the perceived beneficial value of your product or service to your customers.

Regarding the workforce, what drives that potential intangible value is a combination of the technical know-how, shared values, business acumen, behavioural competencies, learning capability, client and supplier relationships, employer brand, and other factors. That said, if leadership does not have a clue about the percentage of true intangible value your workforce creates, in addition to the tangible costs, you will never be able to correctly “price” your workforce risks or potential value.

The Long View

To address the second concern, consider this point: No real investor invests in something based solely on its past and current market value. Primarily, investors invest in companies, stocks, and initiatives based on their potential future value! When it comes to pricing the risks and potential value of your talent pool, why should it be different? You have to be able to calculate their future value to be able to correctly reflect future potential.

Of course, this task is not easy, especially when leadership has an established perception of seeing value only through the eyes of narrowly defined costs, rather than potential. It is no surprise that when companies go through a rough patch, they immediately put on “cost glasses.” Everyone loves to wear them, because they are easy to put on—and nobody blames anyone because they wore them. So many others do the same thing.

As long as leaders do not shift their thinking to future potential value with regards to their workforce and talent pool, organisations will continue to waste valuable resources and funds on hiring the wrong people to fill

available jobs, training the wrong employees to develop them, promoting the wrong people to grow the business, and making wrong decisions to prepare their workforce for the future.

In fact, most workforce decisions that are made without considering future potential value are, at the very best, mere presumptions and assumptions in many organisations today. As their leaders pretend to know things, they have no idea about the future implications of their decisions on their organisation, suppliers, clients, employees, “investments,” and, importantly, the “investors”—aka shareholders.

The Bottom Line: Analyse Workforce Risks and Potential

Employees represent an investment—of time, money, and resources. Consequently, leadership must also consider the return and future value expected from that investment. Employers have a great deal of flexibility in determining workforce pricing, assuming that all relevant factors are included in the mix. Possessing three key components—a well-thought-out analysis of workforce costs, an appropriate mark up over those costs, and consideration of the future value of the talent pool—can place the organisation on the road to profit and growth. Although market conditions and economic factors will vacillate over time, understanding the value of your workforce investment is one certain way to boost the organisation’s ability to handle whatever difficulties and challenges lie ahead.

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