

The trillion-dollar difference.

Although organizations obsess over technology and its promise, people hold huge, measurable value. And they can't be neglected in the future of work, Korn Ferry research finds.



A price tag on people's real value.

CEOs face the huge challenge of making strategic decisions not only about where to invest now but also about where to lay the foundations for their organizations' future success.

That increasingly has required them to seek answers to critical questions about the future of work—and about what role humans may play in it. This issue looms large over organizations because technology has assumed such a dominant role in global workplaces, seeming almost to render people obsolete. Fully 65% of Americans said in a major national poll that they believe that computers and robots will take over in a half century the work that people now do (Smith 2016). Almost half of current US employment is at “high risk” of negative effects of computerization and the onslaught of technology, Oxford University experts say (Frey and Osborne 2013). Even as some economies are only just recovering from the Great Recession of 2007–09, some futurists see the planet at a technology-driven tipping point where people will struggle in “a world without work” (Thompson 2015).

Korn Ferry has sought to provide research-based insights on humans' future in work, separating science fiction scenarios from economic realities. Working with experts from the Centre for Economics and Business Research, the firm has tried for the first time to quantify the dollar value of human capital relative to physical capital. This provides a true picture of the value of people today and of how human potential can be directed to generate value over time. The firm also commissioned detailed opinion research to capture the thinking, knowledge, and experience of 800 CEOs, Chief Commercial Officers, and Chiefs of Strategy around the world. They have illuminated where they perceive value today and tomorrow and where people factor into their vision for success.

What's inside.

- 03** A new vision.
- 04** Human capital's trillion-dollar value.
 - 05** Human capital value, globally.
 - 06** How the numbers add up.
- 07** CEOs' blind spot.
 - 08** Have leaders and nations gone overboard on tech's promise?
 - 09** Sector insights on tech emphasis.
- 10** Conclusion and next steps: unleashing people power.
- 11** References.

About this study.

This study challenges the fundamental assumptions that have put technology at the fore of the corporate mindset with beliefs that tangible assets are more valuable than those that are intangible; that people are bottom-line costs, not top-line value generators; and that technology, not humans, is essential to organizations' success in the future of work. In this study, CEOs will find crucial information that may alter their views as they seek to understand their greatest sources of value. Armed with this knowledge, they may rethink their technology-obsessed views on how to maximize their organizations' performance, now and in the future. Korn Ferry sees this study as a vital part of a \$1,215 trillion answer to the question: Do people have a place in the future of work?

A new vision.

The pressure intensifies by the day for CEOs to improve their organizations' performance and to capture elusive growth to generate shareholder value.

As productivity lags and the global economy crawls, leaders find that they must scrutinize their assets to discover where unrealized value can be channeled to boost performance. Technology has become a core focus of the collective vision for high-performance organizations, particularly in automating processes traditionally undertaken by humans, or in augmenting human tasks to create efficiencies. This isn't new, but ask organizations today what's different and they will say the tempo of change has accelerated exponentially. Companies have been overwhelmed by a digital revolution, and the transformation already has been profound (see Vickers et al. 2016, Binvel 2015, and Kingdom 2015). Further changes may be even more fundamental, as technology shakes the foundations of globally shared beliefs about the nobility of labor and the fundamental idea that to work is human.

Although companies have raced to embrace the conventional wisdom that technology will be the panacea for all performance woes, the effect of the potential "invisible/human-less workforce" on organizational performance is more nuanced and less clear. As they hasten to become tech titans, do corporations neglect the partnership that software and machines must strike with the people who use them (Colella 2016) and reality that only people can serve as technology's inventors, champions, users, and beneficiaries (Lennon 2016)? Do businesses lose sight of how much value humans contribute when they create and apply digital and other advances to machines and processes (Laouchez 2016)?

Can technology alone deliver the performance gains CEOs need to generate value (Crandell 2016)? Are global business leaders placing the right bets for their organizations, from customer technology and real estate to workforce and brand? The easier gains in performance, for example through outsourcing and offshoring, have been made. The challenge for CEOs now is to determine where value lies today and where it will be in future, to distinguish between their perception of value and the reality—without new, shiny promises about technology clouding their vision. Just because a source of value isn't readily apparent doesn't mean it's not there.

"The digital world is fundamentally changing the connections between companies, their employees and their customers. In many ways, technology is strengthening these connections—breaking down structural, geographic and cultural barriers to bring customers closer and link up global colleagues. But CEOs must keep their eyes wide open to the potential pitfalls of the digital revolution—asking technology to do all the work to the exclusion of people. When an innovation strikes gold, the connection between the value that's created and the team behind the technology is often lost. In the future of work, leaders must recognize and capture the value of all their resources to succeed."

Jean-Marc Laouchez, Global Managing Director, Solutions, Korn Ferry Hay Group

Human capital's trillion-dollar value.

Even for CEOs in multinational corporations, accustomed though they may be to dealing routinely with sizable numbers, the value of human capital might be surprising.

An economic analysis commissioned by Korn Ferry¹ finds that human capital represents to the global economy a potential value of \$1,215 trillion. It is 2.33 times that of physical capital, which includes tangible assets like technology, real estate, and inventory. Physical capital, the analysis performed for Korn Ferry indicates, should be valued at \$521 trillion. Although organizations often put technology in the spotlight in the future of work, it is, in fact, human capital that holds the greatest value for organizations now and in the future.

Human capital is also the greatest value creator available to organizations: For every \$1 invested in human capital, \$11.39 is added to GDP, the Korn Ferry economic analysis finds. The return on human capital—value versus cost—should give a clear signal to CEOs: Investing in people can generate value for the organization over time that significantly exceeds initial financial outlay.

There are two key reasons why people represent not only significant financial value but also value-generation capability to organizations: potential and appreciation. The performance of people can be influenced; hence it has great potential. By creating the right environments, CEOs can raise performance and release discretionary effort—the hustle that a machine will never make. Meanwhile humans, as capital, also do something that machines cannot: They gain experience and knowledge over time, in ways that even the most

sophisticated algorithms cannot. People have empathy and the more senior they become, the more they grow their ability to generate further value. In economic terms: People, as assets, appreciate. This distinguishes them from physical assets, which operate at a limited maximum output and which typically depreciate over time. CEOs who are equipped with these insights should, as they look to invest time and financial resources wisely to harness the value of both human and physical capital in the future of work, consider how to create a high-value partnership between technology and people.

“The economic reality of human capital value magnifies the importance of attracting and retaining the right people now and in the future. Technology alone cannot deliver the uplift in productivity and value every organization needs. CEOs must now reflect on whether they have the pipeline of value multiplying talent they need to power their strategy.”

Jeanne MacDonald, Global Operating Executive and President, Talent Acquisition Solutions, Korn Ferry Futurestep

¹ To quantify the relative value of human and physical capital, Korn Ferry commissioned the Centre for Economics and Business Research to develop a robust economic model. The center's economists determined human capital value by developing a lifetime income calculation, encompassing the ability of people to perform labor and add productive value over time. Physical capital captures the value of tangible means of production. It was calculated using the same principles that were applied to human capital's value—potential earnings from the asset in use. Meaningful parallels can be drawn between the value of human and physical capital now and over time. Human capital is not deemed to be volatile, and its relative value to physical capital, the economists say, will hold over at least the next five years (the forecastable future).

Human capital value, globally.

Although the structure and size of a country's economy frames the relative value of human to physical capital, the critical importance of people is clear to see, even in nations weighted toward agriculture and industry.

China's services sector is growing.

48% of its GDP output was generated from services in 2014 compared to 40% in 2000. However, 52% of China's output (in 2012) still was attributable to industry and agriculture. This is reflected in its human- to physical-capital ratio (2.23), which is among the lowest in the eight countries that economists examined for Korn Ferry. This ratio mirrors the overall importance to China's economy of its physical capital, in addition to its human capital.

Service-based markets experience highest ratios.

Markets with service-based economies experience higher ratios, meaning the value of human capital outstrips that of physical capital. GDP output in France (79%), the United Kingdom, and United States (both 78%) is, among the eight nations studied, most heavily weighted toward services. These countries also realize the three highest human- to physical-capital ratios.

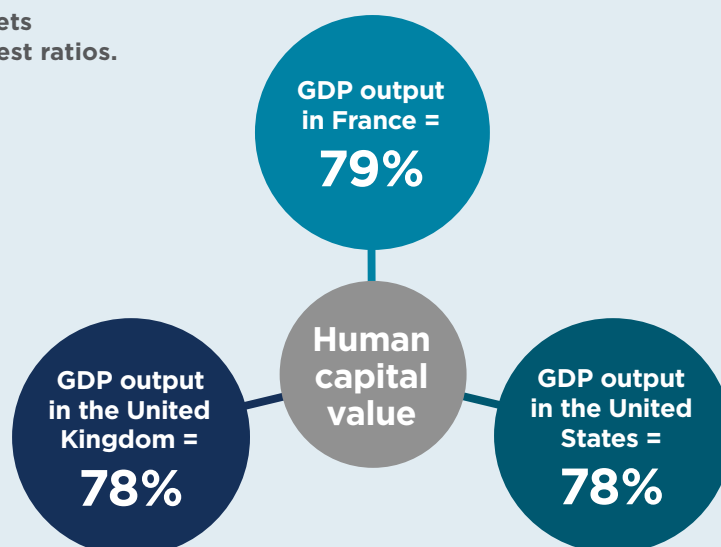
The ratio is greatest in the UK.

In the UK, human capital is 4.23 times higher than physical capital. This echoes population trends apparent in the country, such as above-average rates of post-secondary education (49.2% of the population aged 25 to 34, compared to the Organization for Economic Cooperation and Development (OECD) average of 42.1%). This reflects the big footprint in the UK of established, high value industries, including the financial services sector.

Human capital value is greatest in the United States.

The United States holds the human capital of greatest value (\$244tn). That is indicative of its huge overall economy, which is the largest in the world and which is followed by China at No. 2 (\$110tn).

Service-based markets experience the highest ratios.



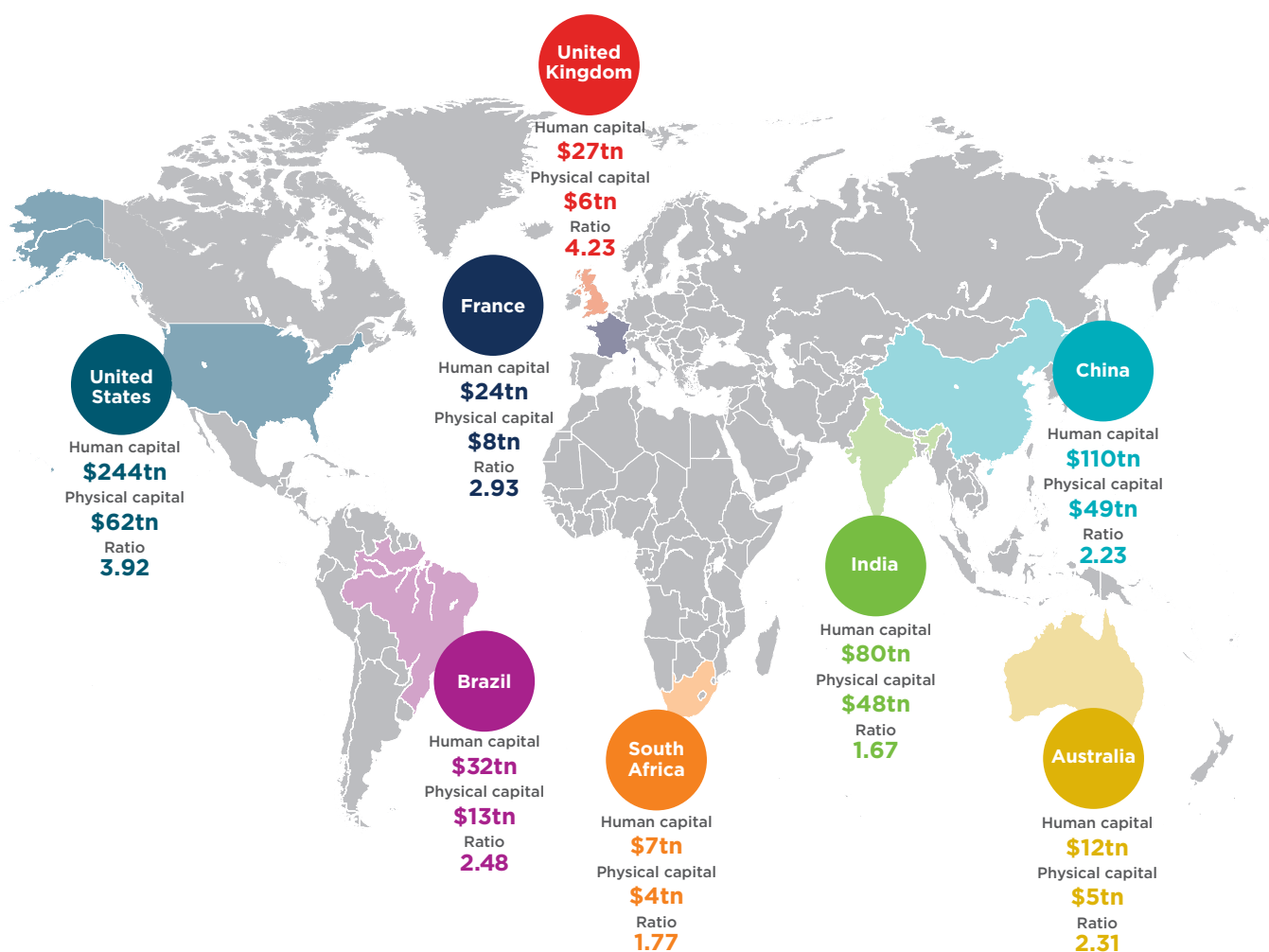
How the numbers add up.

What do the economic data tell us about the relative value of human and physical capital in specific countries, notably eight nations studied by Korn Ferry?

These measures are determined by the structure and size of a given nation's economy. Where manufacturing and industry are the big drivers of nations' economies, the ratio between human and physical capital typically runs lower. This shows that the value of physical assets is closer to that of human capital. China's focus on agriculture

and industry, for example, gives it a relatively low human capital ratio (2.23). Contrast that to the United Kingdom and United States, which are global leading service-oriented economies. Their human capital ratios are much higher (4.23 and 3.92 respectively). This graphic presents (in US dollars) the value of human and physical capital in the eight countries included in this research, as well as the relative ratio between those values.

Human capital value, in all eight nations, exceeds the value of physical capital.



Note: Trillion dollar figures in the above graphic have been rounded off.

CEOs' blind spot.

Although this evaluation may be one of the most important they make in the near future, CEOs have a significant blind spot in the way they perceive people, tending to undervalue human capital.

Instead, they put a higher value and degree of focus on technology and tangible assets, Korn Ferry research finds.

There is a clear trend among them to magnify the relative importance of technology in the future of work: 67% of CEOs responding to the firm's survey said they believe that technology will create greater value in future than human capital will; 63% of CEOs said they perceive that technology will become their firm's greatest source of future competitive advantage. But the economic reality differs sharply, with human capital, not physical capital, creating the greatest value for organizations.

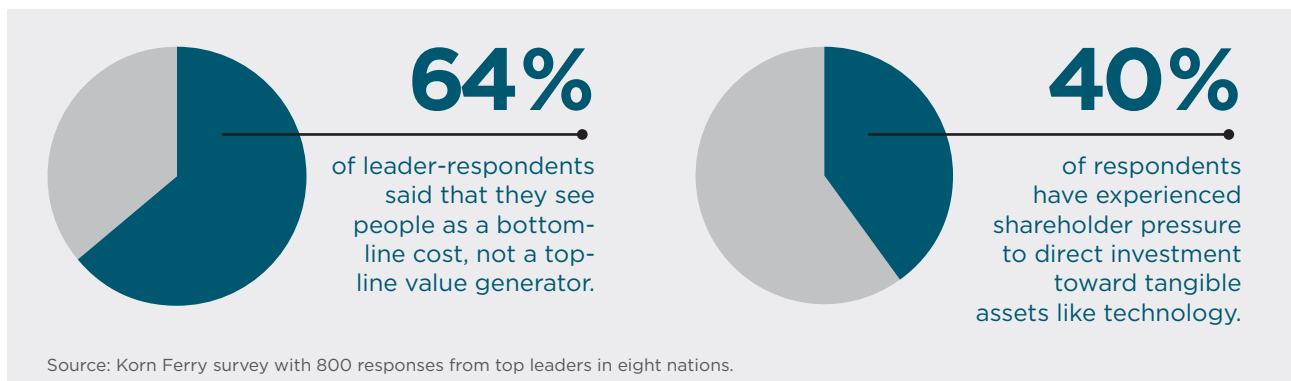
CEOs' distorted perceptions demonstrate the extent to which people are being painted out of the future of work—and the risk to organizations that do not recognize the potential of people to generate value: 44% of leaders in large global businesses told Korn Ferry that they believe that the prevalence of robotics, automation, and artificial intelligence (AI) will make people “largely irrelevant” in the future of work.

Leaders may be demonstrating, in a big way, what experts call tangibility bias. Facing uncertainty, they are putting a priority in their thinking, planning, and execution on the tangible—what they can see, touch and measure.

CEOs excel at this, of course. They want metrics to help them chart the best course. But organizations also are least likely to measure human factors, with just 4% of respondents to a Korn Ferry survey seeing revenue per employee as a critical performance indicator; 46% of responding leaders said their organizations don't understand how to measure workforce performance, and 40% said their organizations lack an executive with specific responsibility for the performance of people. Without laser-focused leadership time dedicated to realizing people's potential, how can CEOs unlock their workforces' value? Great performance does not happen by accident.

“Leaders are placing a high emphasis on technical skills, technological prowess, and the ability to drive innovation in their new senior recruits—elements critical for modern organizations. However, the financial reality proven by this study—that the value of people outstrips that of machines by a considerable distance—must give CEOs pause for thought. So-called ‘soft skills,’ such as the ability to lead and manage culture, will become critical factors of success for companies in the future of work as they seek to maximize their value through their people.”

Alan Guarino, Vice Chairman, CEO and Board Services, Korn Ferry Search



Meantime, 64% of leader-respondents told Korn Ferry that they see people as a bottom-line cost, not a top-line value generator. Are today's corporate accounting principles, which classify people as an expense rather than an asset, causing organizations to under-allocate strategic focus, capital, time, and other resources to people, their primary value generator?

Technology does not create itself. It does not prompt greater efficiency in isolation. But organizational leaders and corporate investors are not making the connection now between people (their workforce) and value generation, between tangible assets and their activation by the workforce. Korn Ferry's research supports the critical finding that CEOs can value the workforce more and, by understanding its great worth and potential, they can focus on releasing it.

Have leaders and nations gone overboard on tech's promise?

Have CEOs become too enamored with technology's promise? Korn Ferry data show they have become so focused on tech, perhaps because of shareholder pressures, that they may ignore the value of other assets, to the potential detriment of their organizations.

CEOs consistently rate technology as their organizations' most valuable asset now and in five years' time. They cite both back-office and customer-facing technology as key drivers of value. Leaders say tech has become so central to their thinking and execution that it occupies 40% to 60% of their priorities on strategic focus, financial investment, and C-suite time. Although leaders told Korn Ferry in a survey that culture and innovation are among their top five priorities, the workforce overall did not rate at all.

Korn Ferry research finds a possible source of CEOs tech obsession: 40% of the firm's survey respondents said they have experienced shareholder pressure to direct investment toward tangible assets like technology. When the firm examined the top five areas of emphasis in annual reports and other investor relations materials, three of the top five were based on technology—to the exclusion of other critical strategic value drivers.

The way organizations are dealing with talent also suggests that tech's prominence will persist. Leaders told Korn Ferry that their top five priority areas when recruiting new executives included understanding transformation through technology, tech knowledge, and tech capability (those ranked as priorities one, two and four, respectively). Leaders are also seeking capability in finance (ranked fifth) and innovation (ranked third). Understanding culture and how to manage people were CEOs' lowest priorities when recruiting leaders.

Nations, too, have gone all in with wagers about technology's promise and value. Korn Ferry analyzed the priority and emphasis that CEOs give to strategic resources from customer channels and supply chain to workforce and brand. Australia and China are placing the largest bets on technology in all aspects of decision-making. South African and Brazilian CEOs are prioritizing operations (including supply chain, real estate and inventory), and leaders in the US and India have zeroed in on customer improvements. The firm found that UK CEOs place the most emphasis on people factors (including workforce, top team and culture).

Australia and China are placing the largest bets on technology in all aspects of decision-making.

Sector insights on tech emphasis.

Do various business sectors differ in how much they emphasize technology and potentially undervalue people?

Korn Ferry analyzed responses from business leaders in the technology, manufacturing, industrial, life sciences, professional and financial services, and consumer sectors.

Although these areas vary little and generally tend to put a low emphasis on people, some notable differences exist in how CEOs prioritize resources to generate value and save costs. How much CEOs value people varies according to the specific challenges their sectors confront.

Financial and professional services leaders believe technology will generate greatest value for their business, with 55% of them rating tech No. 1—that's 7% more than any other sector. CEOs in the sector—searching for new revenue streams in increasingly commoditized markets—also put a high priority on innovation, which 73% of them ranked No. 1 when recruiting leaders; 56% of this sectors leaders told Korn Ferry they will direct financial investment to research and development as their top priority in the next five years.

By contrast, consumer companies, which were among the first to digitally integrate and therefore may have fewer related changes ahead, see technology as their key to saving costs: 57% of leaders responding to Korn Ferry's survey rated this aspect No. 1, 8% more than any other sector. Manufacturers, meantime, see their best opportunities in cost-cutting in the workforce, with 57% of respondents rating this option No. 1. Leaders in this sector say they already have achieved efficiencies through automation.

The industrial sector, striving to appear more digitally enabled, put a striking focus on technology. This emphasis was most pronounced in sector leaders' plans for communications and executive recruiting: 72% of industrial CEOs rated tech performance as a top priority in their internal and external communications, while 73% rated tech knowledge as the most important factor when recruiting for C-suite roles.

72% of industrial CEOs rated tech performance as a top priority in their internal and external communications.

CEOs' view on the top five most valuable assets now.

Technology (back-office infrastructure)	1
Technology (product, customer channels)	2
Culture	3
Inventory	4
R&D/Innovation	5

CEOs' view on the Top five most valuable assets in five years.

Technology (product, customer channels)	1
R&D/Innovation	2
Product/Service	3
Brand	4
Real Estate (including offices, factories, owned land)	5

CEOs' view on the most prized qualities in leaders.

Understanding of organizational transformation through technology	1
Knowledge of technology	2
Innovation capability	3
Technical capability	4
Financial capability/understanding	5
Sales excellence/growth	6
Understanding of customer	7
People and culture capability/understanding	8

Conclusion and next steps: unleashing people power.

If leaders recognize the great value and potential of people, as underscored by Korn Ferry research, how do they unlock it to ensure their organizations thrive?

To increase performance and generate optimum value in the future of work, CEOs first need to change their perspective. They must close the gap between their perception that technology will be a greater value creator in the future than human capital and the economic reality that people are organizations' most valuable asset. Enlightened CEOs will partner technology and people—maximizing the performance of both of these assets to generate value.

There is a worrying lack of confidence in leaders' own ability to improve human performance, however, with 62% of CEOs telling the firm that they believe they can't materially influence their people's performance. Korn Ferry, through research and long practice, has shown that workforce performance can be boosted, in part by giving people the tools, conditions, and structure they need to do great work. Organizations that get these elements and conditions right can release discretionary energy that generates significant value (Lewis and Hezlett 2016). This can ensure that people remain top-line value multipliers, not bottom-line expenses.

Although familiarity can blind leaders to this reality, it is the partnership of people and technology—not just technology alone—that holds the key to performance. Humans will play a critical role in the future of work, inventing, using, consuming, and benefiting from technology. As a result, people will be, as they long have been, the most significant driver of organizational performance.

“How to measure return on people has long been a challenge for leaders. Faced with an information vacuum, leaders are mistakenly concluding that, because they can’t easily measure the value generated by people, it’s not there. The current approach taken to managing people as a bottom line cost will, in the value paradigm of the future, fail to create a high-performance team. People are the cornerstone of superior performance, but organizations are not investing the time or resources needed to unleash it.”

Tania Lennon, Senior Client Partner,
Korn Ferry Hay Group

Methodology

In August and September 2016, Korn Ferry interviewed 800 business leaders in multimillion-dollar global organizations on their views on the value of people in the future of work. The respondents included CEOs, Chief Strategy Officers, and Chief Commercial Officers. These leaders were in the United Kingdom, China, the United States, Brazil, France, Australia, India, and South Africa.

Respondents represented six sectors: technology; manufacturing; industrial (automotive, energy, oil and gas); life sciences and pharmaceutical; financial and professional services; and consumer (FMCG, media, retail, and travel).

Korn Ferry also commissioned the Centre for Economics and Business Research to create a macroeconomic model to quantify the value of human capital in relation to physical capital. These were calculated based on a lifetime earnings approach, estimating the value of assets in use. The analysis was based on information from the OECD, the UK's Office of National Statistics, Barro-Lee Education Attainment data, and academic literature. All values are expressed in dollar purchasing power parity (PPP) terms. This means market exchange rates between two currencies were adjusted to allow the exchange to be equal to the purchasing power of each country's currency. International PPP rates—all in National Currency Units (NCU)/\$—came from World Bank data. More detailed information about the economic model is available on request.

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