



## How Do I Put a Value on the People in my Business?

By JoAnn Lombardi, President VR Business Brokers/Mergers & Acquisitions

One corporate accountant at a company colorfully described employees as “costs walking on legs.” Though businesses want maximum efficiency from their employees for minimal cost, the actual measures of intangibles such as corporate efficiency due to employees’ capability or customers’ loyalty due to employees’ efforts are frequently overlooked as gray aspects in a black and white monitoring process. Each employees’ contribution is individually unique and different depending upon the given environment. Most of all, they cannot easily be valued according to traditional financial principles.

However, if you view employee knowledge as an “asset”, you will arrive ultimately at the role that your employees play in terms of your core competitive advantage. Additionally, some of your employees should be seen as investments instead of costs, for the long-term revenue that they will bring in once fully trained and up to speed.

Most of all, there are few credible measures that relate to people and their value. We know in detail what they cost; however, we have no balancing quantity for their value. By the time we feel that asset has been lost, it is too late to do anything about it.

### Solving the Dilemma in Determining a Person’s Value

The valuation of businesses has steadily progressed over years, putting a much higher emphasis on intangible assets such as knowledge, competence, brands and systems - known as intellectual capital.

For example, one thing that occurs following a merger or acquisition of a business are layoffs of key employees, only to hire them back when the value that they contributed is recognized. More often than not, the asset that is the most important is the least understood, least prone to measurement and hence the least susceptible to management.

### Ways to Measure People as Assets

There are three criteria for defining any asset:

- It must possess future service potential.
- It is measurable in monetary terms.
- It is subject to the ownership and control of the company, or it is rented or leased.

### There are also traditional methods for coming to a valuation:

#### Cost-Based

This typically looks at the acquisition or replacement cost. The budget for recruiting an employee can be assessed and then depreciated over the expected future service of the person hired. As an alternative, the person’s gross remuneration can be used as a base.

#### Market-Based

The price to be paid in an open market must be a reflection of the value of a person. Value is very difficult to assess; however, and does not take account of the value of service continuity in itself.

#### Income-Based

The cash inflows expected by the organization related to the contribution of the human asset, calculated as the present value of the expected net cash flows. This is good for individuals whose efforts are directly related to identifiable income.



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