The Society
HUMAN CAPITALISM
IN A BRAIN ECONOMY

"Stronger Love" is what the world needs in confronting its many existential problems. So said Pfizer Chairman and CEO Albert Bourla in a CNN interview. That idea is a good place to start in discussing what we wish to call 'Human Capitalism" as the basis for mobilizing the powers of the human brain to search for and find – through society and science **-** "The "Quality of Mental Life" now under such severe stress.

The US Securities and Exchange Commission says, "we believe investors would be better served by understanding how each company looks at its human capital and, in particular, where management focuses its attention in this space."

The SEC expresses its intent to "elicit ...disclosures regarding human capital that allow Investors to better understand and evaluate this company resource, and to see through the eyes of management, how this resource is managed."

Which brings us to the remarkable initiative of Brookfield asset management, working with the CFO leadership network to implement the Network's 'Essential Guide to Social and Human Capital Accounting.

The problem being accounting practices do not properly value "intangible assets." Accountants do not generally put a dollar value on human beings. This is why people remain an expense.

Dr. Henry Jaffe, an Artificial Intelligence expert, says "the business case for human capital asset management pivots on better decision-making through a better understanding of the impact of people decisions on company performance."

Dr. Jaffee points to "roughly $20(T) trillion in unrecognised, unmanaged human capital assets today. Investors are awakening to this but have no "line of sight" into how well — or otherwise — companies manage this asset.

He points to "human capital assets as the most significant assets of an enterprise. Decision intelligence now enables enterprises to recognize, value and manage human capital assets top enable improvements to enterprise performance and value. Meanwhile, regulators are pushing greater human capital disclosure."

Henry Jaffe has developed a model and hierarchy for human capital asset management supported by artificial intelligence linking these to build trust in the organization, unify employees, build the collective intelligence of managers and employees; improve prediction of results more accurately, explain surprises more quickly; get a better handle on supplier, customer and public goodwill and:

- Use artificial intelligence for innovation and operational improvements.
- Align protection of the asset values of human capital with that of physical/monetary assets.
- Replace human resources with human relations as a policy and management function.
- Use human relations to improve how executives/managers/employees treat each other.

Mr. Jaffe tells us this: artificial intelligence is related to human behavior, production and decision processes and the use of automation and "humanization technology." A process that relegates the role of the human being to menial, repetitive tasks is a "people versus technology thing." Which is wrong.

"AI technology can illuminate or degrade the human experience. It is up to the people that implement it to determine which is which. If artificial intelligence is viewed as a zero-sum game in which the benefits are realized only at the expense of jobs, that is a problem with the people implementing it."

"It need not be that way." He says AI should be a way to enhance the collective ability of humans and technology in the workplace, making both smarter and more effective. This will grow the collective intelligence of the organization and breathe life into the tired business cliché: "people are our most important asset."

Mr. Jaffe says "this means putting measurable, quantifiable and manageable value into asset categories directly related to people: knowledge, innovation, reputation, relationships, trust, collaboration, intellectual property and human relations in the workplace and marketplace alike.

"This is human capital management, an emerging area within the artificial intelligence field that is devoted to creating organizational well-being through the identification, recognition and measurement of human qualities in the form of manageable assets of business value."

Henry Jaffe concludes:

- "Human capital management enables employees and managers to better understand how their behaviour contributes to the overall good of the enterprise, to the success of their peers, and, therefore, their own success, to fulfilling the company's responsibilities to stakeholders and the wider community.
- "An organization's inability to create this perspective, to operationalize it and to share it with their employees is at the root of organizational and individual malaise. Human capital and its prudent management is an antidote for that."

The Brookfield Breakthrough

Which brings us back to the remarkable initiative of Brookfield Asset Management, working with the CFO Leadership Network to implement the Network's "Essential Guide to Social and Human Capital Accounting."

Brookfield reports: "our ability to deliver excellent investment returns and client service is very much dependent on the contributions of our people." The work is a "great illustration of how the finance function can bring a number of groups together to enhance the dialogue around understanding our human capital and the way (we) impact value creation..."

And as a result, Brookfield reached a "fair market value" of its human capital by grouping human capital around contributions by employees to the value chain of the business and determining the value of human capital to the growth and profitability of the assets being managed, the largest component of the business.

In the process, Brookfield "quantified the tangible and direct outputs of valued added or created by the asset management team. The performance fees earned by Brookfield ... are tangible and direct outputs of value created by (the team)."

The company identified the "additional value that can be attributed to human capital" and ultimately "the human capital-fair market value." Brookfield described the project as a first step in creating "a better understanding of our human capital."

"The act of putting a value on our human capital and linking each function to the contribution to the value chain should enable us to address a number of important objectives." Among these, strengthening the contributions of value among all employees to help them become even more engaged in their job.

The Brookfield initiative and the practical realities of a brain-based economy enhance produce a rationale for what we might call the 'human capitalization of the digital economy' where:

- Workplace cultures of resistance and trust promote productivity.
- Job fulfilment is an explicit part the employment deal.
- Employees understand their role and the value of their contribution to the company's interests. Brookfield makes this point explicitly.
- Organizations create a 'constant learning mindset,' as advocated by the Brookings Institute.
- Investments in employee brain health and brain skills produce a form of capital investment incentivized as such for tax and financial reporting purposes.

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In 2011 we developed a formula — '**brain health + brain skills = brain capital"** — to line-up the interests of the employer, employee, workplace and marketplace in a (then emerging) digital economy where new jobs demanded cerebral skills, where a brain disorder was (and is) the principal source of lost work time.

In a digital, Brain based economy, investors and boards of directors will:

- Ensure human capital is adequately recognized, valued and protected in both business operational and human resources policies and practices.

- Push for the elevation of the capitalization of human assets as a form of capital investment and return on capital expended (ROCE) to render obsolete once and for all the idea that investments and people are cost to be cut and expenses to be reduced.

- Ensure steps are being taken to replicate and preserve human capital through re-skilling and the upgrade/defence of human capabilities in the face of the infusion of artificial intelligence.

- Ensure that management rhetoric concerning the value and importance for employees are backed up by real investments in real time to promote and defend the essential human skill set necessary for competitive success in a digital economy.

The powerful US Business Roundtable released a statement in 2019 and the signators included CEOs of scores of major companies, aligning themselves with this and other principles: "Investing in our employees and (beyond compensation and benefits) supporting them through training and education to help develop new skills for a rapidly changing world."

This **NEW** workplace will be a venue where 'sustainability' is a core value, where managers learn how to make innovation, motivate and inspire the cognitive energy of employees, creating work climates that sharpen the organization's competitive edge: the minds of people.

The **NEW** Workplace is one suited to a brain-based economy – an economy where cognition is the ignition of productive work and where the mental energy of employees is key to innovation which is hailed by governments and economists as the key to future prosperity.

More than a decade ago, we reported on the European Union's Consultative Report proclaiming, *"Mental health of European populations as a resource for attainment of some of the EU's strategic policy objectives ... and to bring practical benefits to the quality of life for (EU) citizens."*

The Late Honourable Michael Wilson once said: "like all great international issues — energy, security, trade, economic development — the mental health <u>of</u> workforces <u>in</u> workplaces merit an international response.

In 2021, this equation was validated and deployed by an international consortium of scientists making the case for a "Grand Brain Strategy" in a peer-reviewed article for Nature Publishing magazine "Molecular Psychiatry."

The assembly of 'brain capital' in the workplace means creating work environments that are psychologically healthy, that allow employees to have the time and freedom to think about what they are doing, ask questions about workload and distribution, question priorities and available resources.

Building an innovative workplace in a brain economy means being clear how innovation happens and where it originates: that is, the imagination, skill, creativity, know-how and dedication of people. Yes, technology is important, but it is a tool. Innovation is a function of the human brain first and foremost.

The building blocks of the ***NEW*** Workplace are not bricks and mortar – or even technology - but ideas, innovation, mental energy, mutual trust and mutual loyalty. In this kind of workplace, we see that doping healthy things for the heart and brain are pretty the same:

- Avoid chronic stress, diet, exercise, time to catch your breath and think about what you're doing. In this workplace, what managers need to know about the brain isn't 'brain science' — it is largely common sense.

Managers in the **NEW** workplace must learn that '*feelings'* are OK in a work setting — recalling once again that employee feelings and morale are a leading indicator of financial performance.

'**Workplace Brain Briefings**' will acquaint managers and employees with brainpower as a business asset to be handled with judicious care. It can burn-out. For example, chronic job stress interferes with the 'executive functions' of the brain.

Workplace Brain Briefings will help de-mystify how burn-out can be mitigated, even prevented and how employees can be supported to bounce back. Brain Briefings will de-mystify resilience, how the brain can heal itself, why employees who get depressed are not damaged goods.

The **NEW** workplace will ensure job performance and employee wellbeing are balanced and duly supported. It will come naturally to managers to learn what goes into a psychologically healthy workplace, how the brain and body connect,

The New Workplace will be fuelled by ***'neuro'*** and '***eco'*** investments. Both environmental protection and asset management investments — both part of a larger 'sustainability' agenda — one is an investment in our natural environment, the other, an investment in the social environment of the workplace.

The CEO of the future will embrace psychological health as a precondition to commercial success and competitive or comparative advantage in the marketplace. These matters implicate the design of insurance, pension and health benefits and services.

The CEO of the **NEW** Workplace will recognize the link between a healthy culture and a healthy future and take an investment portfolio approach to employee health — measuring objectives, benefits and return on investment.

The CEO will set hard, achievable financial targets to reduce and prevent mental disability and make it crystal clear that employees on disability leave are assets with continuing value. Line managers will be accountable for mental health in the workplace.

The **NEW** Workplace is one where chronic job stress is deemed a work hazard like air pollution and unsafe equipment, where senior management understands that **employee attitudes** are leading indicators of financial performance. Financials are a lagging indicator.

For unwell or disabled employees, the **NEW** Workplace will promote 'renewal' of the employee's clinical health, functional health and emotional readiness to go back to work.

In this light, the **NEW** Workplace will heighten employee awareness of the 'stress traps to avoid, one of which is this: stress that intensifies near the end of the workday, and likely to be taken home, poses as much of a risk to heart health as smoking. the human capitalization of the digital economy and the building blocks for this process are these:

The CEO of the future will value human capital by:

- Leading workplaces that are planned, measured and managed as psychologically safe and sound.
- Introducing the 'New Hard Skills of Management' needed to build trust and job fulfillment as the platform for innovation and operational success and organizational health.
- Recognizing the employer's duty to prevent reasonably foreseeable harm to the psychological health and safety of employees, establishing chronic job stress as an occupational health and safety hazard.
- Establishing management accountability for establishing the contribution human capital is making to the performance of the organization.
- Recognizing that employees are motivated when it is clear management has a sense of direction, knows what it's doing.

Persistent ambiguity, uncertainty, abuse and fear can destroy a company. Behind the curtain of normalcy, too often, autocratic management styles, meaningless, repetitive tasks, even too little to do, create tensions and insecurity.

Conversely, employers help employees maintain work life balance principally by resolving time conflicts at work, by working with insurers and health care professionals put a pragmatic definition on harmful stress,
Reform so-called 'disability management' practices and policies, eliminating the short and long-term (STD/LTD) quagmire which can swallow the lives and careers of people trapped in this system.

Flesh and Blood Capitalism

Michael Wilson once described "flesh and blood of capitalism" as the people who did the work, provided the value added and took the emotional content of work to heart — and into policy,

We have now reached a stage where human capital as the source of 80 per cent of the asset value of publicly-trade corporations, and human capital is dependent on the cognitive and intellectual capabilities of people.

This task, in turn, is not just about education and training. It is about finding the balance in life that fosters and facilitates healthy brain function noting that the human brain functions only in association with the environment or the world around it. The importance of attitudinal and cognitive strengths of people to the financial performance of organizations has been amply demonstrated.

And according to a landmark study by the Gallup organization, studying the Sears workforce, we learned that financial results are a lagging indicator of financial performance while employee attitudes and outlooks are a leading indicator.

The first, a rear-view mirror, the second, a roadmap to the future. In turn, the Wharton School of Business concludes that the "surest way to profits is treating as employees as assets." That day has arrived. By definition, as demonstrated by the Brookfield analysis, human capital are now assets in real time.

Harvard's Michael Porter has told us years ago that the only way for companies to differentiate themselves will be through the skills of people. Cost and technology have run their course and no longer provide the definitive comparative edge. People now provide that critical edge.

Meanwhile, innovation remains the key to economic success and prosperity. But where does it come from? One might answer, technology. Another might say investment. Yet another, education. All would be only partially correct and all would be misleading.

Innovation definitively comes from the human brain assisted by technology. Yes, artificial intelligence is an important tool of innovation, but its design, direction and its original and ultimate value stems from what AI strives to replicate, human intelligence. This is the original source of innovation: ideas, concepts and adaptations of products and services delivered by the thoughts and dedicated creativity of people.

None of the advantages new information technology, beyond this quarter's income report, stem from using it to collapse three jobs in one and to cut costs as a phony expression of productivity. Innovation is a cerebral function and one that is construed by governments and economists as the surest gateway to future prosperity.

On this premise, we are the first to articulate the convergence of a brain-based economy defined by the bulk of new jobs demanding cerebral not manual skills, adjacent to this new reality is another reality we continue to contend with: brain-based disorders remain the leading cause of workforce disability.

Years ago, we asked what would the workplace in a brain-based economy really look like. Well for one thing, it is a workplace place where productivity is achieved through people using technology and machines to bring analytical, resilient and team-oriented capabilities to the task.

Meanwhile, the US Business Roundtable, in a "Statement on the Purpose of a Corporation," points to "an economy that allows each person to succeed through hard work and creativity and to lead a life of meaning and dignity."

Adding this: ***"Investing in our employees starts with compensating them fairly and providing important benefits ... it also includes supporting them through training and education that help develop new skills for a rapidly changing world. We foster diversity, inclusion, dignity and respect."***

This statement and the Brookfield findings combine are central features of human capitalism — the recognition that business interests and investments are linked to the fundamentals of the quality of life — the quality of mental life — in the workplace and marketplace alike.

Human Capitol ROI

The return on investment 'in' and 'of' Human Capital blends these principles with Michael Porter's insight that people have replaced price and technology as the pivotal source of comparative advantage in a digital economy and with the UN's ESG agenda – Environment, Society and Governance.

Consulting giant, KPMG, in a major economic assessment of mental health globally, concluded that ***"mental health development is economic development, and this is important to a world built around human capital and knowledge."***

These elements of Human Capitalism are wrapped together by an equation the late Michael Wilson and I developed a decade ago, that was the subject of a recent peer-reviewed article in the peer-reviewed journal, **Molecular Psychiatry**, Brain Health + Brain Skills = Brain Capital.

This formula reflects the conversion interest of both probably best since science serves as a framework for the concept of these actors working together and capturing these trends in doing so:

- Most new jobs demand cerebral not manual skills.
- Human cognition is now the ignition of productivity in a digital economy.
- Innovation, the key to competitive success, is a deliverable of human cognitive capacity.

The authors (which included me) — led Dr. Harris Eyre — endorsed the concept of a brain-based economy and the brain capital formula, proposed a 'Grand Strategy for the Brain" including, a "Brain Capital Index" to track investments in the principal assets of a brain economy — the brain health and brain skills of employees and consumers.

The Brain Capital Index, according to Dr. Eyre and colleagues, could be a tool to "quantify the contribution that health and education make to a given country's next generation of workers," measuring human happiness, satisfaction and wellbeing based on eleven OECD determinants -housing, income, the environment and mental health using emotion/cognition metrics.

In Canada, Employee Assistance specialist Morneau Shepell reports annually on a Mental Health Index. The Grand Strategy also set out Brain Capital Investment Plan fusing the quality of life with economic development and recovery.

Let us understand this much: the building blocks of productive capacity in the brain-based economy our ideas, inclusion, productive engagement, trust, loyalty and motivation, the new hard skills for management of management sensitive to changing times.

Times in which employees understand and support organizational objectives, are given discretion over, and the tools for doing the job expected of them, are encouraged to whistle blow on workplace practices that abuse emotional well-being and mental resilience and, therefore, productive engagement and output.

In this era, cultures of resilience replace cultures of angst and tension. Resilience training becomes a basic becomes as basic as plant safety and dietary guidelines to help employees cope with change, the greatest constant in their future.

Policies put work-life balance on the 'to do' list of every executive, manager and employee supported by a new 'Common Sense Protocol' (CSP) to protect employees and their bosses against the enslavement of texting, tweeting, and scrolling at all hours of the day and night.

These policies will look in disbelief at working a normal day and being accused of ‘quiet quitting,’ truly one of the most nonsensical epithets yet to materialize out of this social media jungle that has grown up around us over the past 15 years.

Employers in a brain-based economy will see that psychosocial risk is now the principal workplace health and safety concern of the 21st-century. When one defines what that term means, among other things, it means how people treat other.

Human Capitalization of The Economy

The human capitalization of the economy puts a premium on CEO leadership and CFO engagement and reforms which rescue good management practises from the grasp of the social media culture.

CEOs must galvanize the organization around the principles of openness and inclusion. If Bell Media leaders had practiced this, the crisis gripping CTV’s management would have been avoided.

CFOs most recast employee related expenses as an investment in and of human capital and build a framework to measure returns on those kinds of investments. Mental health concerns affect investments of, and in human capital and mismanagement of preventable disablement rates may represents an unreported and unfunded liability.

The ***NEW*** Workplace displays a sharp distinction between healthy and unhealthy work environments:

- **Fairness, respect, job clarity, employee recognition for and control over day-to-day tasks versus micro-managing, frustration, distrust, corrosive tensions, management incompetence.**

This **NEW** Workplace of the 'Third Decade' must nourish brain health, brain skills and generate brain capital as a component of the 'intangible assets' that underwrite 80% of the asset value of publicly traded companies today. We will call this **NEW** workplace, a **Neuro-Economic Workplace.**

The **N**euro-**E**conomic **W**orkplace is where managers are well-trained in dealing with employee emotional distraction and worry, where empathy and open-mindedness — trainable and learnable — are essential management skills.

This ***NEW*** Workplace is one where managers talk listen to how employees 'they feel' about things, knowing that employee attitudes are leading indicators of financial performance.

Practising to be well understood when discussing financial markets but not human affairs. We recommend that business leaders understand the implications of what Dr. Roger McIntyre found through his research. That is, a one per cent rise in unemployment represented an equivalent increase in Canada's suicide rate.