



Effective human capital management is critical for long-term performance. (UBS)

# Three reasons why investing in people matters

09 July 2024, 5:28 pm CEST, written by UBS Editorial Team

**Investing in human capital benefits both employees and companies through increased productivity and lower turnover rates, crucial for long-term performance. Climate change, AI, and an experience-driven economy are key factors for effective workforce management. ESG leaders excelling in human capital management may better handle near-term challenges and extract long-term value from improved labor productivity. Investing in themes like "Diversity and Equality" can also be a way to identify companies focused on employee retention and productivity.**

In 2022, about a third of IKEA's US workforce quit, and half of its new hires in the UK and Ireland left within a year, according to Bloomberg and company reports. Each departure cost IKEA at least USD 5,000 to replace. To tackle this, the company raised wages, made shift schedules flexible, and adopted new technologies. These changes led to a 44% drop in voluntary turnover in Ireland and a 25% drop in the US within only eight months.

This example shows that investing in employees can lead to operational success and meaningful financial impact. With labor strikes and shortages on the rise, effective human capital management—including diversity, inclusion, and employee health and safety—is crucial for long-term value creation. It has the potential for both companies and investors to unlock additional long-term value from improved labor productivity.

Here are three reasons why effective human capital management is increasingly important:

**1. Climate Change Impacts Productivity:** Extreme heat affects sectors requiring outdoor physical labor, like agriculture, mining, and construction. The Federal Reserve Bank of San Francisco notes that decreased productivity can slow capital accumulation and consumption. Heat exposure has caused up to 2,000 worker fatalities and 170,000 workplace injuries in the US, based on a report from Public Citizen. Companies must consider climate risks for employees exposed to heat stress.

**2. Emerging Technologies and AI:** AI and other technologies can boost efficiency and productivity if employees are properly trained. An MIT study found AI too expensive to replace humans in most jobs, but it will impact nearly every job according to the Harvard Business Review. As emerging technologies and AI manifest their potential, sufficient ethics and data security policies are necessary, and the shift toward a new era of digital transformation will be one that reduces learning friction toward building a more equitable and inclusive workforce.

**3. Employee Engagement Drives Customer Engagement:** Engaged employees provide better customer service—a key competitive advantage. In an experience-driven economy, quality customer service is more important than ever. A Forbes survey found 48% of consumers are willing to pay more for quality service, leading to customer loyalty and better pricing strategies.

Main contributor - Amanda Gu

For more, see [Sustainable investing perspectives: Semiconductors, three reasons to invest in people, and transition risk for real estate](#), 9 July 2024.

### Important information

As a firm providing wealth management services to clients, UBS Financial Services, Inc is registered with the U.S. Securities and Exchange Commission (SEC) as an investment adviser and a broker-dealer, offering both investment advisory and brokerage services. Advisory services and brokerage services are separate and distinct, differ in material ways and are governed by different laws and separate contracts. It is important that you carefully read the agreements and disclosures UBS provides to you about the products or services offered. For more information, please visit our website at [www.ubs.com/workingwithus](http://www.ubs.com/workingwithus).

© UBS 2024. All rights reserved. UBS Financial Services Inc. is a subsidiary of UBS AG. Member FINRA/SIPC.

There are two sources of UBS research. Reports from the first source, UBS CIO Global Wealth Management, are designed for individual investors and are produced by UBS Global Wealth Management (which includes UBS Financial Services Inc. and UBS International Inc.). The second research source is UBS Group Research, whose primary business focus is institutional investors. The two sources operate independently and may therefore have different recommendations. The various research content provided does not take into account the unique investment objectives, financial situation or particular needs of any specific individual investor. If you have any questions, please consult your Financial Advisor. UBS Financial Services Inc. is a subsidiary of UBS AG and an affiliate of UBS International Inc.