The Ethical Corporation
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Lecture - 21
Investing in Human relations: Employees as stakeholders and Investors of Human Capital

Hello, we are on to our 5th week and this week we are going to talk about employees. As you can see Employees as Stakeholders, Employees as Investors of Human Capital; our tagline for this week is Investing in Human relations.

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So, we are going to talk about various aspects of employer employee relationship, but today specifically we will talk about establishing employees of the corporation as on important stakeholder group and then as you will see that I am also going to talk about the human capital theory. Namely there are theories that have talked about the employees as being some kind of an investor. So, this is where we are going to start and throughout this week we will talk about various duties and rights of this particular group namely the employees.

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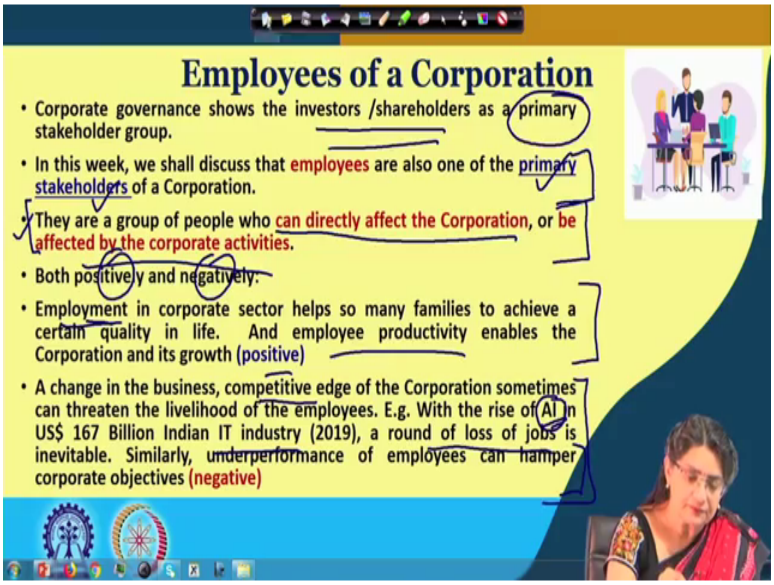

So, here we start Employees of the Corporation. Now last week we have discussed about the corporate governance and in relation to that we have talked about a very important stakeholder group namely the shareholders. So, if that is a very important shareholder stakeholder group and we have called it a primary stakeholder group because of the salience, because of the importance, because of the directness of their involvement. This week as I just said we will speak about employees as being also stakeholders of the primary kind. So, let us try to understand that.

Let us recall what stakeholder means given Freemans definition and that was individuals or groups who can either affect the corporate objectives, organizational objectives or can be affected by the organizations objectives. Now if you try to see that in this aspect, then employees suddenly fits into the definition because they are a group of people who can directly affect the corporation or be affected by the corporate activities right. So, that is why we are going to include them in the stakeholder map. They can affect and be affected both positively and negatively, let us try to understand by taking examples.

See the positive to be affected by the corporation in a positive manner, you might say the employment itself is that change factor we get is completely changes the life the quality of life for the employees. In fact, so, many families achieve a certain quality in life because of that corporate employment. So, there is a benefit that they are receiving there is an effect on their lives.

Similarly, employee productivity can certainly boost (Refer Time: 03:50) the corporations growth. So, that is a positive affect similarly the negative effect. You know sometimes business has to take the undesirable unpleasant decision to downsize because of you know a change in the way to do business or because they the steep competition that it faces.

For example, all of you or many of you know that the what we are calling the fourth kind; industrial revolution the fourth kind of change that we are expecting is the rise of AI, Artificial Intelligence. And when that course comes going to come I am sure you understand that the IT industry will not remain the same because it is going to be AI based. So, there is inevitable downsizing that is going to happen a round of loss of jobs that is inevitable. So, that is the effect the employees are going to face, similarly if you see that the employees are not performing well that affects the corporation also.

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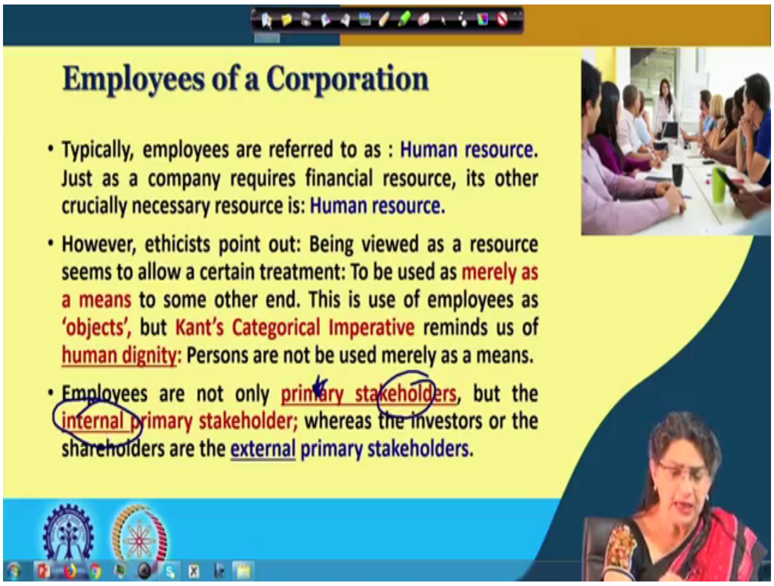

So, given that now we have seen that typically employees are referred to in the literature as well as in discussions often they are referred to as human resource. So, the comparison here is that just as you need financial resource that is your capital, similarly a corporation needs it is human resource. These are the people and they are compared to a kind of resource. Now that nomenclature is very widely prevalent in fact, there are lots of courses and programs that run saying this is a human resource management course and so on.

Now, ethicists have a problem with that kind of terminology. Why? Because they point out that you know being viewed as a resource has a downside, has a negative side because the resource has an only an utility value, it is good as long as it is of use. So, to be treated as a resource allows a certain kind of treatment namely exploitation, namely treating humans. As if they are only merely a means to some further end and that is what Kant would say treating persons as 'objects'. Objects that are disposable after use, after the utility you can dispose of them without any regard towards their welfare or without respecting them.

So, Kant's categorical imperative may I remind you will object to this kind of treatment and they it will remind us about this human dignity, that people deserve different kind of treatment. So, instead of calling the employees as human resource, it has been it is also in currency that we can treat them as stakeholders. Not only stakeholders, but let me make the point that they are obviously, very important and primary stakeholders we have said that, but they are also the internal primary stakeholders. If you think of shareholders they are also primary stakeholders, but they are external; external as an external to the corporation. The employees are internal as in internal to the corporations. So, that is an important spot for us to remember.

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Now, how do we get this if you know the process of you know there is employee appointment then you know that there is a definite process that the organizations go through namely the process of proper recruitment, selection and recruitment. So, you hire through a regular process advertisement, you know interview holding interview because there is a very clear job specification, there is a certain kind of job for which you are looking for the skilled people. So, the job description and then the matching skills this is where the recruitment happens through certain phases.

Now, once selected the employee is goes through signing the employment contract; the contract is between the employer and the employee and for both sides it has to be mutually agreed upon terms and conditions for the job. You know that not all employees are of the same kind, there can be some can be part time, some can be full time, some can be contractual, but we have this medley of employees. And the terms and conditions might be different, but that there is a process of recruiting, them there is a process of engage with them in the organization.

In exchange of employees experience and skill set and an ability to contribute to the corporates objectives the corporation decides the compensation package for the employee. So, there is of course, the salary involved, but along with it there are other benefits also. Perks benefits and so on for example, you know health insurance or retirement benefits and so on. But we are going to talk about that how this is not the only conditions if to corporation meets those, how that does not cover the entire set of response relate is that exists between these two groups namely employer and employee. So, let us move forward with that.

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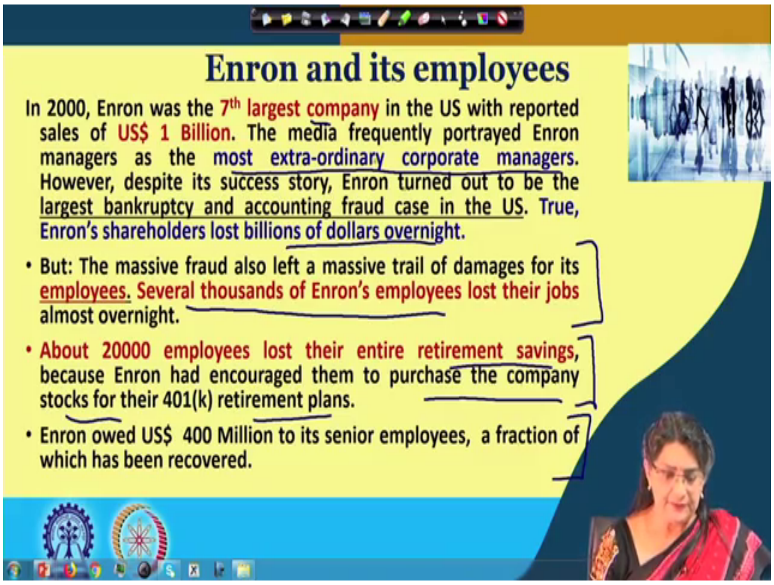

Let me once more cite the example of Enron. We have talked about this case when we were discussing corporate governance and you may recall that before it collapsed. Enron was a very big name it was in fact doing fabulous business being the 7th largest company in the united states with a whopping a pound of 1 billion cells figure. And the managers the top managers of the company were idolized by the media, by the corporate sector as being most the most extraordinary corporate managers, there was an aura charm about them and finally however, the company collapsed.

The company collapsed and we till date, we discuss about how it affected the shareholders because it is true that the shareholders were very hard hit, they lost billions of dollars overnight. But we need to also remember that it was not only the shareholders who were hurt by the company's collapse there was a big bloody trail left also for the employees big damages.

First is the immediate was that several thousands of Enron employees immediately lost their jobs practically overnight. Above that some 20000 employees lost their entire retirement savings; why because, the company was doing extremely well and the company advised them to purchase the company's stocks for their retirement plans. So, their entire retirement savings went into the company buying the company stocks which seemed like a very good idea at that moment. So, the point is that if the shareholders lost because of Enron so, did it is employees.

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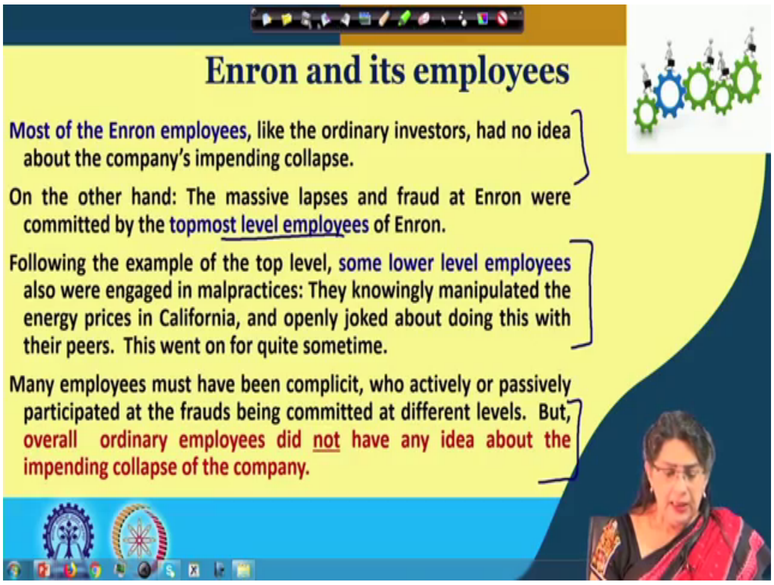

And the fact is that just like most of it is shareholders in fact, all it is ordinary shareholders did not have any idea that the company was going in the red. Similarly, the employees most of the Enron employees did not know about the company's impending collapse. It is true that the massive fraud, the accounting fraud that was committed in Enron, the perpetrators were also employees they were the top level executives of Enron they were not ordinary ones, but as the top executives were involved in that accounting fraud. It is also true that there were certain malpractice going on within the organization by some employees also.

So, for example, some later analysis has revealed that some lower level employees manipulated energy prices and they boasted about it, they joked about it in openly among themselves. So, many employees may have been complicit with the collapse and they probably had a hunch, but in general the ordinary employees had no inkling about the huge catastrophe that the loss is going to happen. This left them completely unprepared and also absolutely facing an uncertain future.

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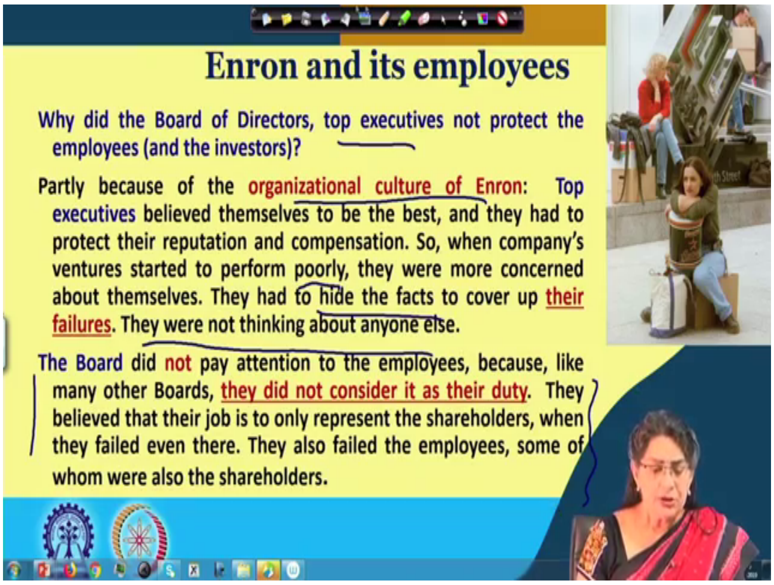

So, this is not a very desirable kind of relationship with an organization. You are working for it, thinking it is going doing extremely well you are trusting it, you are trusting your pensions saving you know life ends savings, but then you are feeling that you have been completely cheated out of this.

So, now the question is you might ask is why the board of the directors or the top executives of Enron, did not even think about protecting the interest of the ordinary employees of course, the shareholders also, but why not could not they inform the employees at least in some subtle way.

Now that analysis would give us an interesting answer this is from the analysis of the Enron case from various perspectives. People say that partly the reason lies with the organizational culture of Enron. The topic executives may I remind you where viewed by the world and the media as this super managers, you know they are extremely talented and the most extraordinary kind of corporate managers. So, they had a reputation, they had an image to the world.

So, when the company started to perform poorly they were very concerned to cover up the tracks, they very concerned about their image. So, they had to hide the facts that would show them as failures to the world and they had no time to think about anybody else. So, they were absorbed obsessed with them themselves.

Now, why the board did not pay any attention to the employees future? The clear answer is because like any other board probably the board of Enron also did not think it is their duty to consider the employee interest. Because the boards typically think about how to return the value to the shareholders and in their calculation, in their consideration the employees do not even feature.

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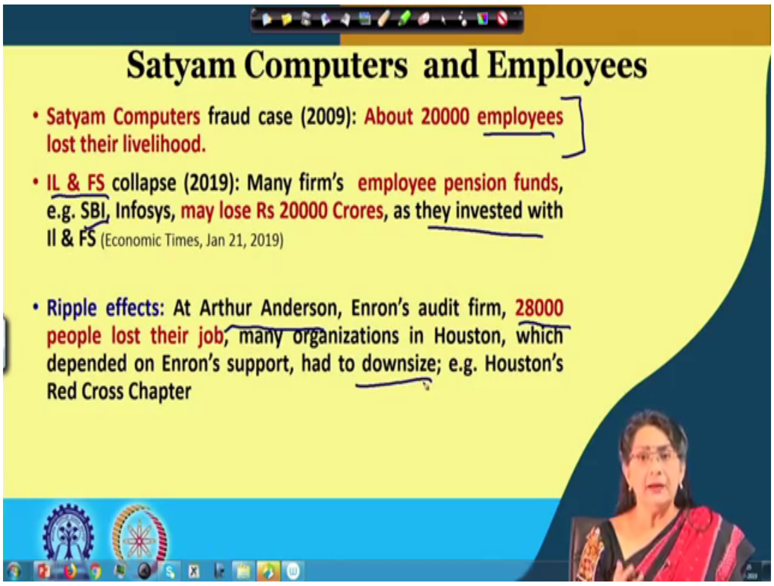

So, with that we are trying to make a point here that, when company something happens to the company, it not only affects the shareholders, but also the employees. We can take the example, our Indian example of Satyam computers this also we have discussed we again speak about the investors of the Satyam computers, but we rarely talk about the 20,000 employees who also lost their jobs because of the debacle, because of the major fraud that was committed.

If you consider the most recent case of IL and FS collapse, you know then we can see that it has affected not only the shareholders and the you know the lending other companies who which were dependent on it, but many firms actually invested with them and those were employee pension funds. So, sorry, those were an employee pension funds and so, that kind of puts the employee future at stake what which companies are this was SBI Infosys which actually invested with IL and FS.

There are also ripple effects with Enron when Enron collapse we need to remember that at Arthur Andersen which worked as Enron's audit firm some 28,000 people lost their jobs. Similarly the organizations that in Houston, Texas which were supported by Enron also had to really downsize and feel the pressure on them. So, these are the total effects and they are all important to remember.

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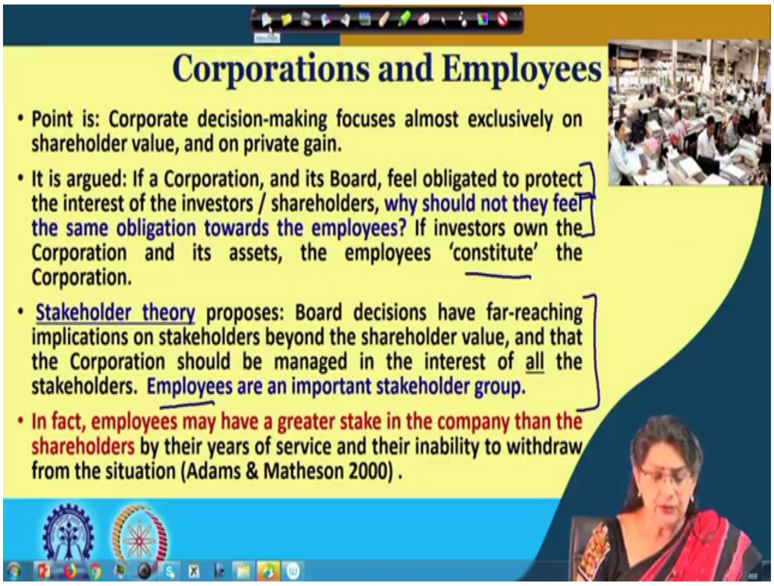

The point as I have said that though we typically look at the shareholders the board the company and so on. But if they are important then what we are trying to raise the question here along with the research literature is that, why should not we feel, why should not we say that the company also owes it to the employees the same obligation, because if the investors own the corporation then employees constitute the corporation.

Now, going back to stakeholder theory therefore, we can easily make up an argument that employees are this important stakeholder group and if we have to say following stakeholder theories claim that the corporation has to be managed for the good of all the stakeholders then how can we leave out the employees out of that. There will be some who will say that employees have a much greater stake in the company, because they are connected with the company in a very difference sort of a way, let us take a look at that.

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A point has been made as you saw that the employees are more important than the shareholders, but here is human capital theory, which says that you know we can also look at employees not only as stake holder but also as some kind of investors. They are not a financial capital investors, but they are the human capital investors. What is it that they are investing in the company, and this theory point said this important things the physical capability, the intelligence, the creativity or innovations. And the initiative this is what the employees bring to the corporation and they invest their time, their life and their energy in the corporation if that is the case then they are what this theory says is human capital investors.

So, if financial investors deserve importance and consideration, then even the employees as human capital investors deserve, definitely deserves some importance and they should not be looked up only as kind of a resource.

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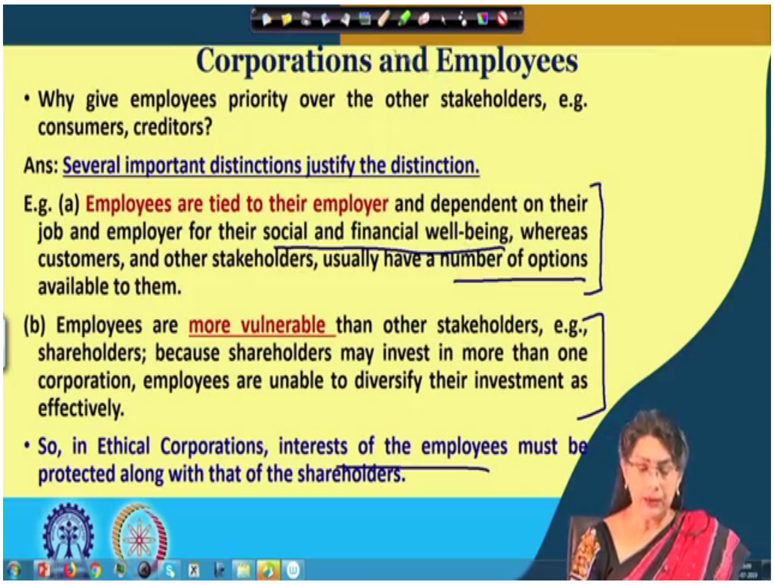

Here you might say, but then why are we singling out employees because there are other stakeholders also you know who are equally connected and equally important for the corporation. And this theory points out that there are important distinctions to justify that claim; namely, the employees are tied up with the employer and their uniquely dependent on their job and on the welfare for their well being. Be it social well being, be it financial well being whereas, the other kind of stakeholders they have number of options available to them, they are not in that sense dependent on the corporation.

Also employees are more vulnerable for anything that happens to the company, employees are more vulnerable because you know again shareholders and other stakeholders, customers also can look for other products look for other companies, but employees cannot immediately delink themselves in that way. So, in an ethical corporation therefore, the interest of employees need to be protected along with the protection of the interest of the shareholders.

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Do that we shall so, far what we have to tried to follow the literature to establish that employees are very important stakeholder groups, and if shareholders are important crucial in stakeholder groups so, are the employees this much we have not established. It seems like we are arguing then employees need to be protected and the organization has special duties towards them; yes we are saying that, but with that I am going to add further one more point that it has to be a reciprocal relationship. There are duties and there are obligations from both sides and we cannot overlook that fact. So, the desirable ethical behavior that we will be speaking about in the next few lectures would demand a certain kind of reciprocity it is not a one way relationship at all.

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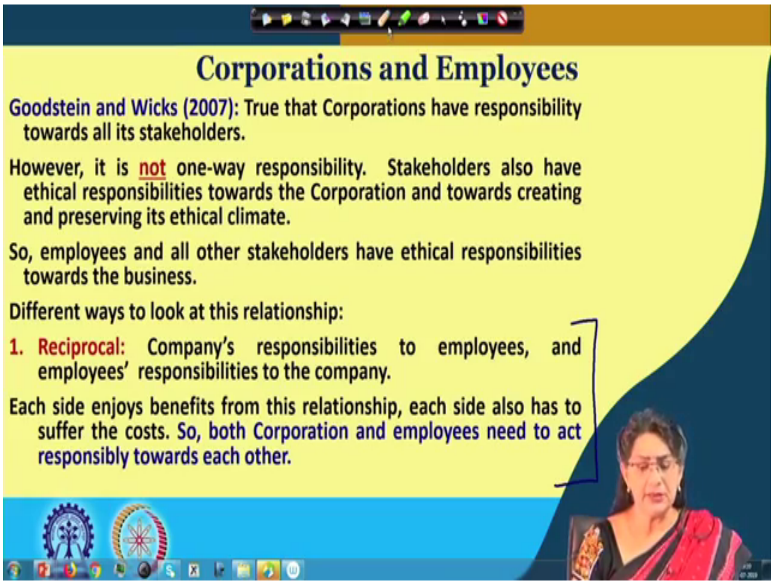

So, this has been also mentioned by other researchers for example, Goodstein and wicks and they have said that it can be looked at from the lens through the lens of reciprocity which is what, often is the ground for most moral relationship, most ethical relationships are based on reciprocity. So, both employees and employer they have duties and rights towards each other.

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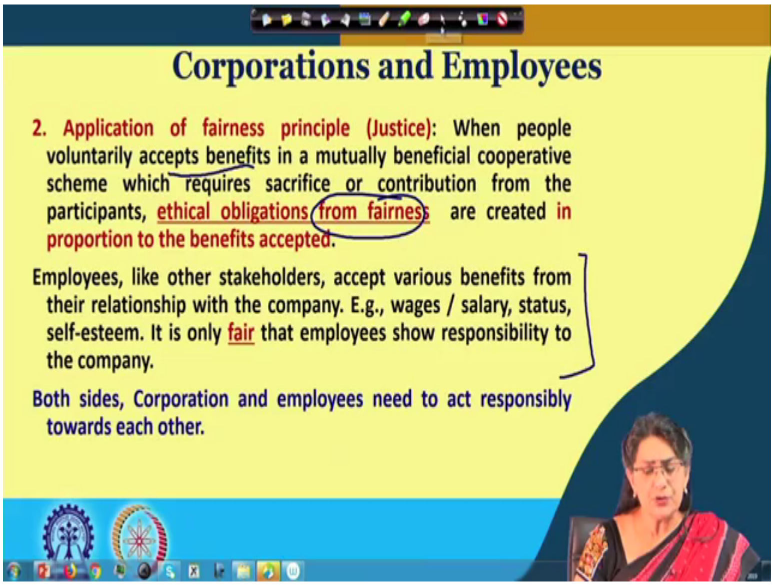

Apart from that we can also use the justice the lens of justice theory to argue a similar point. Justice principle says that when people knowingly and voluntarily starts accepting benefits in a mutually beneficial cooperative relationship. Where which requires both costs and positive benefits from both the sides then out of fairness certain duties certain obligations are created in proportion to the benefits accepted.

So, if we use that, then suddenly employees accept benefits knowingly from the relationship and it is only fair that they should show responsibility to the company. So, (Refer Time: 24:29) with this is going to be our track, this is going to be our way of understanding the whole relationship.

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With that I am going to end this lecture today.

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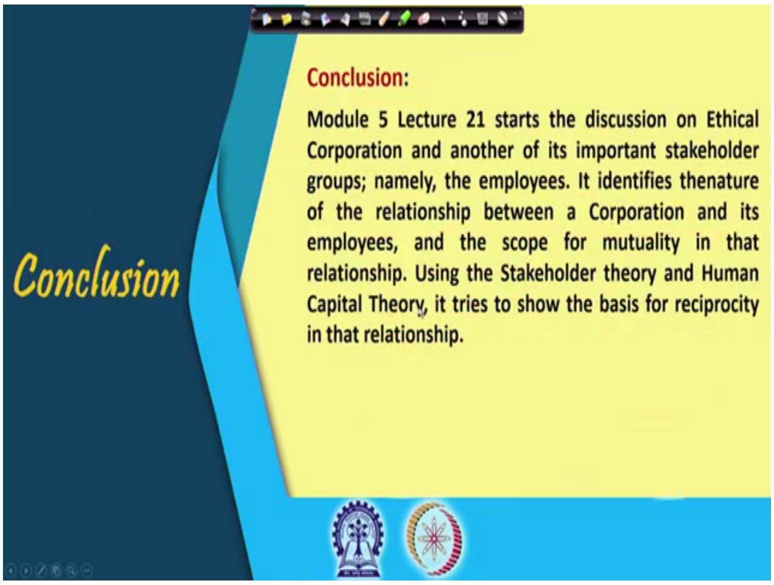

There are references given for you to take a look at this, but overall we have just started our journey on this important component namely the employees.

Thank you.