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The Employee as Stakeholder

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Every enterprise since people first began to organize to perform work has had distinct groups which feel the effects of its actions directly — to their benefit or detriment. By the early 1980s, the word "stakeholder" was being commonly used to describe the company's:

- shareowners
- customers
- employees
- neighbors

Each of these groups was viewed as having a "stake" in the outcome of the enterprise and, therefore, it was argued, they should be specifically considered in corporate actions.

As important as the various stakeholder issues are, most of the hot debate on this topic today centers on the "employee-as-stakeholder" relationship vis-à-vis the "shareowner as stakeholder," especially in a period of downsizing by major companies. Is it just shareowner primacy — since they bear the ultimate financial risk — as economist Milton Friedman argued in an often-quoted statement from 1970? Or do employees have equal, if not superior, rights because of the personal effect the company's actions have on their lives and well being?

Interestingly, the employee-stakeholder question really became the "cause-célèbre" when it began to affect white-collar workers, especially those in middle management. Temporary and permanent layoffs of hourly workers seldom reached the prominent front-page and op-ed status accorded the new phenomenon of professionals being "downsized."

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The causes of this wave of organizational contractions are now familiar ones:

- Mergers which removed overlapping staffs.
- Flattening organizations for efficiency, removing bureaucracy, and empowering employees.
- Price and, therefore, cost pressures from newly emerging international competitors.
- Development of computer-based information which facilitated decision making at lower levels.
- Reengineering work flows and processes away from redundant activities.
- Changed business conditions or the fallout from poor decisions.
- Relentless pressure from activist shareowners for superior financial performance (ironically, acting on behalf of the *real* owners of some two-thirds of corporate America — *former* employees through pension funds, equity-backed health and life insurance, and corporate debt holdings. *Active* employees also added indirect pressure through 401K plans).

Avoiding Wrongs to Ensure Employee Rights

Most of the proposals from academe and government to address the "rights of employees" call for a combination of the following fixes:

- Portability of benefits so that job movement is facilitated in both voluntary and involuntary circumstances.
- Appropriate compensation packages in (not-for-cause) involuntary terminations because it's fair and because the remaining employees are very observant.
- "Lifetime" training so that employees are equipped not just for the current job but for later ones as well — within the company or, if necessary, on the job market.
- More time for volunteerism during working hours to satisfy an individual's sense of community and to help in the devolution of social programs from federal to local resources.
- More flex time for family needs and other family-friendly practices.
- Greater compensation for lower- and middle-level managers to recognize the productivity gains and burdens on employees in slimmer organizations and the fewer hierarchical promotional opportunities

they have in de-layered organizations.

- Conscious efforts to give employees more say in all aspects of the job that affect them, designed to help alleviate the anxiety, discontent and cynicism present in certain segments of the work force.

But What About the Little Guys?

Unfortunately, the proponents of these and other employee-stakeholder proposals are usually thinking only about Fortune 500 companies — who have significant resources to address these concerns. Indeed, many larger corporations already subscribe to a number of these practices — but many don't. However, even if they *all* did, that's only a "10-percent solution." Ninety percent of (nongovernment, nonagricultural) workers *don't* work for Fortune 500 companies. In fact, 55 percent work for companies of 100 employees or fewer.

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What training capability that exists in these smaller companies is often *very* job specific. Fortunately, many employees come to these small companies well trained by larger companies. I once surveyed smaller employers in the St. Louis area to assess their opinions about the quality of recent college graduates they were hiring. I could find few who actually hired recent grads. "Too expensive to train. We get our new hires from the big companies," was what I almost universally was told.

And then there are the enhanced benefits proposals made by a number of "social advocates." But, according to the Bureau of Labor Statistics, only two-thirds of small companies even have a full range of benefit *categories* and often the amounts are quite modest. The General Accounting Office reports that more than half of the estimated 41 million, or so, uninsured citizens are working at companies with fewer than 25 employees. In addition, there are few "extra" people to cover for those wishing to have volunteer and personal time. The smaller companies already feel the disproportionate cost burden of managing regulations and benefits.

In fact, employees of smaller companies are just as much "beleaguered" as those of larger ones — or perhaps more so because of the lack of flexibility smaller companies have in coping with business upset. And middle management is fast disappearing in smaller companies just as it is in large ones.

Good economic theory would suggest that, in general, employment rewards and risks are in balance based on conventional supply-demand dynamics, whether in large or small companies. But assessing employee risk versus reward is not an exact science and it is a distinctly *personal* one. *Perceived* risk of an uncertain job future, after all, is almost as debilitating as the real thing. Most people *don't* lose their opportunity for a livelihood or their opportunity to advance to the limits of their capability. But the worry is there because the news is all around them and the real thing happens often enough to be threatening. The *New York Times*, for example, recently reported that "nearly three-quarters of American adults say that they or someone close to them have been touched by layoffs in the last 15 years."

What, if anything, should (or even *can*) be done about risk/reward and the question of greater attention to the needs of the employee-stakeholder? And what about the fact that more than half of nongovernment employees work for companies with fewer than 100 workers — companies with few resources for "amenities"?

Trim the Marginal without Hurting the Margin

To a considerable degree, people still *do* have plenty of say in the "employee as stakeholder" outcome. They choose their own levels of educational investment, their own work intensity, and whether to avail themselves of educational opportunities that are provided in the workplace. But large numbers of people did *all* the right things and are still dislocated for all the reasons cited above.

The "invisible hand" of the market and a strong dose of John F. Kennedy's phrase, "life isn't always fair," will doubtless, on average, sort things out. But superior corporate performance does not come from being *average* and waiting for things to sort themselves out. It comes from superior use of assets and drawing on the ingenuity, dedication, and drive of employees. After all, businesses fundamentally have only two assets to work with — money and people — and good money is easier to get. Companies of all sizes need to rethink the balance between ultra-efficiency on the one hand and turned-on employees on the other — or worse, turned-*off* employees.

This does not argue for tolerating bureaucracy, waste, or excess. Nor does it argue against employee reductions when real business needs dictate it. It *does* argue for rethinking and accurately evaluating the cost of performance upset from the relentless and constant "semiannual restructuring and business redesign."

Forget Not the Hardworking Employee

Greater consideration needs to be given to the debilitating affects of employee anxiety. After all, no company could survive if its customers were wondering daily when the next shoe would drop as their supplier tinkered constantly with the product offering and sales relationship. This same logic argues for a serious consideration of the *unnecessary* people upset and its cost, against the hypothetical gains of the latest disruptive business fad.

I have lived through (and sometimes picked up behind) the litter from the 1970s' barnyard of cash cows and dogs. I experienced the once-popular conglomerate risk-spreading concept, the 1980s' "return to roots"; the lessons from "In Pursuit of Excellence"; management by "Walking Around," and by "Objectives," "Zero-Based Budgeting"; nine-quadrant strategy consultants and their less complicated four-quadrant cousins, "Concentric Circles," "Secrets of Invincible Japanese Managers," "Leadership Secrets of Attila the Hun"; and many others too numerous and too painful to recall — many of which hacked away at *real* employee values.

Most senior executives I know thrive on chaos — but they are in control and can cope. They are, in a sense, in the center turning the carousel at a measured and self-controlled pace, while those out at the perimeter run at top speed simply to catch up — only to find that someone has suddenly reversed the direction of the carousel and the catch-up begins anew, while they fight to avoid being thrown off.

George Fisher, CEO of Eastman Kodak, argued in the March 1997 CEO Series that we need to give special attention to letting people get back in control of their jobs — as it were, to participate in the speed and direction of the carousel.

As much as we may wish it were otherwise, significant percentages of professional employees, as Charles Heckscher points out in his excellent book *White Collar Blues*, do not thrive on change and certainly not when they have little control over it.

When major strategic change is necessary, as it invariably is, it needs doing with thought, care, and fairness to employees. Organic change is a constant in business life but its effect need not be compounded by *unnecessary* constant and debilitating upset under the banner of yet another management program entitled, "A Bias for Action."

In dealing with the new riskier "contract" for employees, I subscribe to many, if not all, of the proposals listed on pages 2-3 — when done appropriately. But again, these are big company solutions or possibly solutions for the handful of core employees at smaller companies.

But what about the group of employees who are the "noncore"? They are the marginally trained, the marginally productive, the marginally mobile, and those marginally in charge of their own future. They are the people perpetually "on the bubble." How big is that number in the 100 million or so (nongovernment, non-self-employed) work population? I don't know, nor does anyone else — but it's not a trivial number. Suppose it's 10 percent (10 million) or maybe even 20 percent (20 million). It is an enormous national problem — and certainly a devastating *individual* one.

Greater consideration needs to be given to the debilitating affects of employee anxiety.

The "labor establishment" that writes about and proposes employee solutions largely ignores this group, preferring to concentrate on the Fortune 500. Big Government, Big Academe, and Big Press usually prefer to deal with Big Business, and they do so in this case.

Innovative solutions are desperately needed for those left behind — the "residual" workers — the noncore employees in medium-sized and more or less *permanently* small businesses.

I have found no innovative writings on this subject and I admit to having no "silver bullet" solutions for this group. I can only urge that it get on the agenda of the "labor establishment" — and soon.

The only coherent answer I know of is a long-term one — education, education, and more education. Here, in reality, is the ultimate governmental role (preferably local government) to do something about the abysmal educational system for those at the margin.

This essay started with the question of the relative "rights" of employeestakeholders versus shareowners. Except for the nagging question of the "barely employable," my conclusion is that the market, on average, in this country generally works satisfactorily in balancing risk/reward in large and small companies. Nevertheless, those companies which go beyond the mere dictates of supply-demand and do a superb job of rethinking the employee equation can create a strong, competitive advantage. In addition to practicing as many of the proposals listed on pages 2-3 as possible, forward-looking leaders will:

- provide for change — not chaos;
- foster fairness and opportunity for self-help instead of popular "chain saw" policies;
- remember what it was like when *they* were middle-level managers at the perimeter of the carousel running furiously to catch up;
- respect the dignity — and anxiety — of employees in today's riskier environment;
- value the employee daily, not just in the obligatory last paragraph of the Chairman's annual letter to the shareowners.

They will, in the long run, produce superior shareowner results.

Looking after the interests of the employee-stakeholder is *not* "touchy-feely" soft-hearted (or soft-headed) management. It is enlightened self-interest. It is management that works. It has staying power. And in the long run, it will work for the interests of the employee *and* the shareowner.

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