

Managing Human Capital

LITERATURE REVIEW

Despite the fact that recent years saw the emergence of new managerial theories that stress out the utter importance of non-material incentives, when it comes to assuring employees' professional efficiency at the work place, there can be little doubt that it is the prospect of being adequately paid, which is perceived as the foremost motivational factor by workers. In their article *Intrinsic and Extrinsic Motivation*, Roland Bénabou and Jean Tirole suggest that under no circumstances should managers overlook the importance of providing employees with adequate salaries:

Although a substantial body of experimental and field evidence indicates that extrinsic motivation (contingent rewards) can sometimes conflict with intrinsic motivation (the individual's desire to perform the task for its own sake), it would be a mistake to think that intrinsic motivations should be given a preference, within a context of managers designing organization's employment policies (Bénabou & Tirole 2003, p. 495).

In other words, no matter how hard managers strive to empower workers psychologically, in order for them to be able to gain inner satisfaction out of performing their jobs, no intrinsic incentive can beat the guarantee of an adequate salary when it comes to motivating employees. In its turn, this brings us to a discussion of metaphysical principles, upon which designing of relative pay rates is based.

The closer analysis of this issue reveals the fact that institutionalization of fixed pay rates at the work place cannot be discussed outside economics, in other words, it is the demand and proposition which define labor market's dynamics. In her book *Pay for Results: A Practical Guide to Effective Employee Compensation*, Karen Jorgensen provides us with the insight on the actual essence of salary designing mechanism:

The principle behind market base pay is similar to that of pricing a new product for the marketplace. When you've developed a new product and want to price it for sale, you research the market to see how similar products are priced. Once you know the market, you price your product based on its quality level, your philosophy of the company and current market pricing of similar products. Market base pay prices jobs the same way. A job is researched in the marketplace to see what others pay for the same duties (Jorgensen 1996, p. 45).

Thus, there can be no doubt as to the objective nature of this mechanism – job pay rates simply reflect the particularities of demand and proposition on labor market. In their turn, such particularities are being defined by world's demographical trends and by the pace of technological progress.

For example, the entry position salary at Wal-Mart (ASDA) is £5.35 per hour, which is the lowest among other retailing operators in the UK. Such salary, of course, cannot be referred to as a strong incentive for the employees to perform their duties with dedication. Instead of increasing workers' salary and improving their working conditions, Wal-Mart's managers try to increase employees' professional efficiency by instilling them with a 'team spirit', which is nothing but a pathetic attempt to gain workers' loyalty without having to provide them with any benefits, whatsoever. The article *The Real Facts About Wal-Mart*, which is available on the web site of WakeUpWallmart.Com, points out the fact that pay rates offered to the bulk of company's employees in the USA are being ridiculously inadequate:

The average two-person family (one parent and one child) needed \$27,948 to meet basic needs in 2005, well above what Wal-Mart reports that its average full-time associate earns. Wal-Mart claimed that its average associate earned \$9.68 an hour in 2005. That would make the average associate's annual wages \$17,114 (WakeUpWallmart.Com 2005, para.2).

The way in which Wal-Mart's (ASDA) managers treat the UK employees appears to be based on essentially the same principle – paying them as little as possible while insisting that they should experience the sense of 'corporate belonging'".

Nevertheless, the fact that Wal-Mart is well known for its executives' sheer greediness does not seem to have any affect onto the fact that, according to

statistics, the number of people seeking employment with this company continues to increase annually.

In order for us to be able to explain such seeming paradox, we will simply need to analyze the trends in America and the UK's immigration policies over the course of last few decades. In his article *Immigration Policy is Mere Insanity*, Paul Westrum makes a very good point while drawing parallels between ever-increased corporate employers' inability to provide workers with adequate salaries and the fact that America is being flooded by the hordes of illegal aliens. 'With more than 11 million Americans out of work, one can reasonably assume that the estimated 12 million illegal aliens in this country are taking a significant number of jobs that Americans would like to have' (Westrum 2009, para.3). Despite the fact that the number of illegal aliens in Britain is estimated to be considerably lower (1 million), it still heavily affects the mechanism of setting up relative pay rates by corporate employers in this country. Therefore, it is not simply a coincidence that the name of ASDA is being strongly associated with numerous scandals that involved hiring illegals. Apparently, for many people the prospect of being paid £2.00 per hour represents a very good incentive. There is no need to pay employees more if they are willing to work for less.

In its turn, this brings us to conclusion that dynamics on international and domestic labor markets, defined by socio-political realities of the 21st century's living (Globalization), accounts more than any other factor for how managers approach the task of designing pay rates. At the same time, it would be wrong to assume that the increasing abundance of workforce alone defines salary designing strategy in post-industrial world. And the reason for this is very simple – the pace of technological progress continues to gain a rapid momentum which, in its turn, transforms the very essence of how commercial enterprises generate profit. This has created a situation

when commercial enterprises, affected by continuous progress in the field of informational technologies, face a challenge of providing additional financial incentives to most valuable employees. Shaun Tyson and Frank Bournois state in their book *Top Pay and Performance: International and Strategic Approach*:

This trend (the practice of “total compensation” in human resources management) has been further encouraged by the development of companies that are increasingly eager to align compensation with function flexibility, whilst also aligning compensation with the overall success of the company or unit for which the manager is responsible. This means moving the individual from simply being an employee to being instead an entrepreneur within the organization (Tyson & Bournois 2005, p. 112).

The analysis of companies that offer their employees particularly competitive salaries reveal the fact that these companies’ operational activities primarily concern the designing of computer software. For example, It is not an unusual case for Microsoft average programmer to earn £200,000 – £300,000 a year. Moreover, these programmers are also being given company’s stock as an additional incentive. Microsoft does not play games with its workers – they are expected to give their utmost to the company; but there is a good reason for them to do this. Microsoft is fond of Japanese version of corporate culture, which views employees’ commitment to their work only within a context of providing them with good salary and various benefits. This is why workers actually enjoy working for Microsoft without relying on the help of hired psychologists, whose task is to convince employees to remain loyal to the company by the mean of instilling them with ‘team spirit’.

The example of Microsoft provides us with the insight into the fact that in the post-industrial world the process of setting up pay rates by corporate employers can no longer be thought of outside employees being simultaneously given the power to make executive decisions. In his article *Working at Microsoft*, Michael Brundage points out this company employees’ professional freedom as being something inseparable from their ability to receive high salaries for their work:

Microsoft gives software developers a lot of personal freedom over both the work and the work environment. I order my own supplies, customize my office as I see fit, schedule my own trips and meetings, and select my own training courses. I choose when I show up for work and when I leave, and what to wear while I'm there (Brundage 2007, para.11).

It is very remarkable that 64% of Microsoft's employees are company's co-owners.

This is the main reason why Microsoft allows a significant degree of personal and executive freedom within its body, never ceasing to provide employees with substantial raises to their salaries on annual basis. However, we need to understand that Microsoft is committed to implementing progressive managerial style throughout its offices not because of some abstract considerations on the part of its top officials, but because it benefits company in the most pragmatic sense of this word.

The examples of Wal-Mart (ASDA) and Microsoft's approaches towards boosting up employees' professional output provide us with better understanding as to what accounts for managerial freedom of action in deciding relative pay rates, or the lack of thereof:

1) Constraint - Dynamics on international and domestic labor markets. In the field of industrial manufacturing, it is now almost impossible to even distinguish these markets from each other simply because the process of economic Globalization strives to remove any existing barriers on the way of capital's flow. This is the reason why more and more manufacturing and retailing companies from Western countries move their production lines to countries of the Third World – apparently, these companies' executives understand perfectly well that it does not make any sense whatsoever to pay Western worker a minimal wage of £5 per hour for performing a job that a worker from a Third World country would be happy to perform for £0.5 per hour. Given the fact that Earth's population continues to grow rapidly (it's well-known that Third World countries double their populations every 25-50 years) and the fact that the notion of countries' national sovereignty loses its actuality (the EU and the

UNO continue to assume more and more executive functions), it will be quite safe to suggest that it is the abundance of semi-professional workforce which will define dynamics on international labor market in the future. In its turn, this means that pay rates for performing manual labor are going to be increasingly reduced on a worldwide scale.

2) Freedom - Technological progress. Ray Kurzweil suggests that even in 20 years from now, world's economic and political realities will undergo a radical transformation due to technology's exponential progress:

Although technology grows in the exponential domain, we humans live in a linear world. So technological trends are not noticed as small levels of technological power are doubled... when the Internet went from 20,000 to 80,000 nodes over a two year period during the 1980s, this progress remained hidden from the general public. A decade later, when it went from 20 million to 80 million nodes in the same amount of time, the impact was rather conspicuous... As exponential growth continues to accelerate into the first half of the twenty-first century, it will appear to explode into infinity, at least from the limited and linear perspective of contemporary humans (Kurzweil 2001, para.10).

The reason why 90% of world's financial resources are being invested into technology is simple: technology gives power, thus, where there is power, there is money. Given the fact that only 5% of these resources reflect the actual value of physical assets (it explains the origins of current worldwide economic crisis), there can be no objective reasons for managers to refrain from giving even as much as 500% - 1000% salary raise to professional employees whose activities are being concerned with designing and exploitation of new technologies. It's clear that in the field of highly technological commerce every pound invested in assuring employees' financial satisfaction yields exponential profit within a matter of very short time.

Thus, we can conclude that in the near future the practice designing of relative pay rates will have to be adjusted to the following: (1) the abundance of employees with degrees in non-relevant humanitarian 'sciences', such as public relations, human resources management, psychological counseling, art, etc., and also the abundance of uneducated manual laborers; (2) the shortage of employees whose

professional activities relate to hard sciences, such as engineering, software designing, chemistry, etc.

DISCUSSION

Agreeing with the idea that managers should always consider legal consequences of their actions while laying off employees, we do not necessarily agree with the thesis that managers should be paying a disproportionate amount of attention to this issue, so that hawks of political correctness can be pleased. It is important to understand that it is only since the promoters of neo-Liberal agenda had found themselves in unilateral position of designing socio-political policies in Western countries in sixties that Western societies became highly litigious; however, it does not mean that this will continue to remain the case in the future. As we have suggested earlier, the sheer tempo of technological progress in the West automatically make existing legal concepts utterly obsolete. For example, despite the fact that the very existence of PirateBay.Com in web space clearly violates the integrity of the concept of intellectual property, it continues to operate simply because the legal mechanisms that could have been utilized to close this web site down cannot be applied to the notion of virtual reality. Apparently, the high degree of Western societies' litigation has no effect on commercial operating of IT companies. Therefore, employers that are being too concerned with the observation of existing laws and regulations, while simultaneously trying to generate a commercial profit, simply face the risk of losing a competitive edge because, as we have stated earlier, it is the managers' ability to adopt a new technological mode of thinking, rather than their allegiance to the word of written law, which will define their chances to stay commercially afloat in the future.

LINKAGE BETWEEN THEORY AND PRACTICE

The overwhelming majority of laid off employees that file lawsuits against their former employers tend to complain about employers' 'racism', 'sexism' as 'male chauvinism', as something that justifies their own professional inadequateness. In her article *Workplace Paranoia: Media Propaganda*, Deborah brings readers' attention to the fact that operating workplaces in many Western countries no longer correspond to the notion of sanity:

People complain that companies, living in fear of the disabling costs of sexual harassment suits, are going off the deep end, forcing their employees into straight-jackets of political correctness, and that their employees, living in fear of being fired for behavior that is objectively innocuous, are unnaturally conforming their personal behavior to this new mold (Zalesne 1999, para.2).

However, given the fact that in the future 'ethnically unique' and 'sexually progressive' job applicants are likely to experience more difficulties while trying to get hired, and to also enjoy less financial security being employed, compared to what it is the case with such employees today, we can conclude that some time should pass before the cases of fired workers filing lawsuits against their former employers will become comparatively rare.

It is not simply by an accident that promoters of Globalization favor the unrestricted influx of uneducated aliens from the Third World to Western countries, at the same time suggesting that they should not be granted citizenship in the 'new brave world'. The overwhelming majority of workers, specialized in performing manual tasks, will simply be deprived of any legal means to even consider filing lawsuits against employers. On the other hand, highly professional employees, specialized in performing technical tasks, would also be highly unlikely to cause their employers any legal troubles whatsoever simply because all their existential needs will be fully satisfied. It is not a secret that even today, 60% of Microsoft's software designing staff consists of naturalized foreigners (mostly Russians), who are more

then happy to be able to live in the USA and to benefit their employer in any way they can, despite the fact that most of them do not even have a clue as to what the concepts of 'celebration of diversity' or 'sexual harassment' stand for.

Nowadays, more and more British and American corporate employers make a point in trying to hire workers from abroad (specifically from Eastern Europe, China and India) simply because these people represent an objective professional value. In his article *CEO of Microsoft's Indian Partner Complains American Grads Are Unemployable*, Jason Mick quotes the CEO of HCL Technologies Vineet Nayar who had openly expressed his resentment against American graduates' inability to act as employers, rather than overindulgent whiners:

He (Vineet Nayar) views American tech grads as inferior to those from India, China, and Brazil as the Americans only want to "get rich" and dream up "the next big thing". He says students from countries like India, China, and Brazil are more willing to put the effort into "boring" details of tech process and methodology, such as ITIL, Six Sigma, etc. (Mick 2009, para.3).

The fact that Western large IT companies have come to conclusion that they would be much better off if they try to avoid hiring the graduates of American universities whenever is possible, provides us with the insight onto how managers should approach the task of designing organizational strategy. Instead of applying a great amount of effort into legal handling of dismissals, they should simply strive not to hire employees that are potentially capable of causing troubles – the ever-continuing process of economic Globalization prompts them to do this.

It became very common among countless neo-Liberal 'experts' to think of human resources as those representing foremost economic value, while in fact nothing could be further from the truth, simply because, unlike natural resources, 'human capital' is fully renewable. As the character of Wolf Larsen in Jack London's famous novel *Sea Wolf* had put it, 'Why, if there is anything in supply and demand, life is the cheapest thing in the world. There is only so much water, so much earth,

so much air; but the life that is demanding to be born is limitless' (London 1998, p.63).

Given the fact that Earth is already believed to be two times overpopulated, the very concept of 'human resources' or 'human capital' is being increasingly deprived of its conceptual validity. Today's humanity is standing on the threshold of new evolutionary-technological jump, which will enable selected populations to attain a status of demigods (the fusion of artificial intelligence with human biology) and will reduce the rest of 'human resources' to being nothing but new humanity's (post-humanity) servants if they are lucky. Therefore, managers should not be overly concerned about laying off lazy and professionally inadequate employees because Western societies will not remain highly litigious for much longer, in contemporary sense of this word, whereas the degree of operational efficiency will continue to define organizations' chances to remain competitive, even when overabundance of 'human resources' begins to pose clear and immediate danger to this planet's ecosystem.

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