

Chapter 4

The Governance of Human Capital–Intensive Firms: A Motivational Issue

Cécile Cézanne
Université Côte d’Azur, France

ABSTRACT

For the past 30 years, the organization and functioning of firms have considerably changed, especially with the growing importance of human capital. In parallel, the primacy of the shareholder governance model has maintained. The aim of this chapter is to review the main theoretical and empirical elements of this paradox and to propose a renewed model of firm governance that takes into account the intrinsic nature of critical human capital incorporated by key employees. The chapter shows that the inalienable residual rights of control inherent to specific human capital are inconsistent with traditional disciplinary models of corporate governance. They rather call for a model of regulation of economic power exercising based on work motivation. This original model that the author calls the “multi-resource model” aims to encourage, retain, and collectively enrich critical resources by using an original operational device based on complementary instruments of incentive and coordination.

DOI: 10.4018/978-1-5225-7426-2.ch004

INTRODUCTION

Competition based on innovation races has heightened since the early 1990s. Yet, in globalized economies, innovation gives rise to two contradictory phenomena. On the one hand, companies' propensity to innovate depends on increasing needs for financing. This situation has led to financial deregulation and to the development of new instruments to control and share risk in a context of accelerated financialization (Aglietta and Rebérioux, 2012; Lazonick, 2010; Lippert et al., 2014). It has also attracted external investors and given more control to shareholders while stock market use has extended. In this context, the shareholder model of corporate governance, emblematic of joint-stock companies, became established: during the three last decades, corporate strategies in favor of shareholder value creation have been intensified. Corporations have adopted a "downsize and distribute" principle based on cutting the size of their labor force (*downsize*), in an attempt to increase the return on equity to increase dividends (*distribute*) (Lazonick and O'Sullivan, 2000, p. 18; Cordonnier and Van de Velde, 2014)¹. On the other hand, companies' propensity to innovate depends on increasing needs for specific intangible resources. In particular, the demand for innovative process and quality improvement can only be satisfied by specialized and mobile employees and external experts. Innovation comes from specific human capital at every stage of the production process. Therefore, human capital tends to be more important than physical assets and employees tend to get involved in participative forms of work organization (Arundel et al., 2007; Boxall and Macky, 2009). Specialized employees with a unique skill or a particular know-how represent valuable resources which are immaterial, inalienable and non-imitable instantaneously (Kochan and Rubinstein, 2000; Wang et al., 2009). Specialized employees control assets able to minimize many transactional and productive costs so that the firm can improve its competitive position. As the importance of human capital has grown, power has moved away from the top management; power is much more widely dispersed through the firm, in particular in the hands of key employees because they represent and control decisive functional resources for the firm. Finally, the separation between ownership and control, recognized as the source of corporate governance issues (Berle and Means, 1932), becomes blurred in the present firm but does not challenge the shareholder primacy view of corporate governance. This paradoxical situation has largely been responsible for the harmful drift of financial capitalism of the beginning of the 21st century (Dore, 2008; Lazonick, 2011).

The author suggests that maximizing shareholder value is inconsistent with a value creation process achieved by a group of employees. While this idea is not new (Marx, 1867), the negative effects of these growing contradictory trends have not been taken into account. The author advances that equating all assets to a financial asset, at least at a conceptual level, amounts to considering that human assets are

24 more pages are available in the full version of this document, which may be purchased using the "Add to Cart" button on the publisher's webpage: www.igi-global.com/chapter/the-governance-of-human-capital-intensive-firms/218484

Related Content

Understanding Millennial Values and How They Will Shape the Future Workforce

Laveenia Theertha Pathy (2021). *Advancing Innovation and Sustainable Outcomes in International Graduate Education* (pp. 21-33).

www.irma-international.org/chapter/understanding-millennial-values-and-how-they-will-shape-the-future-workforce/256943

Development Curriculum for Knowledge-Based Organizations: Lessons from a Learning Network

Hanna Toiviainen and Hannele Kerosuo (2016). *Professional Development and Workplace Learning: Concepts, Methodologies, Tools, and Applications* (pp. 408-426).

www.irma-international.org/chapter/development-curriculum-for-knowledge-based-organizations/137202

Interview with Theresa Cox, President of Native Nations Procurement Systems, Inc.

Peter Miller, Alicia Therneau and Marthe Haile (2014). *Servant Leadership: Research and Practice* (pp. 314-317).

www.irma-international.org/chapter/interview-with-theresa-cox-president-of-native-nations-procurement-systems-inc/106122

Empathy and Mindfulness: Potential Antecedents to Authentic Leadership

Aishwarya Singh, Santoshi Sengupta and Swati Sharma (2016). *International Journal of Human Capital and Information Technology Professionals* (pp. 1-14).

www.irma-international.org/article/empathy-and-mindfulness/163407

Perceptions About Flow and Boredom in the Information Technology Profession: Evidence of a Generational Issue

Pedro Jácome de Moura Jr. and Nayana de Oliveira Rosas (2021). *International Journal of Human Capital and Information Technology Professionals* (pp. 1-17).

www.irma-international.org/article/perceptions-about-flow-and-boredom-in-the-information-technology-profession/288373