



Bangkok, 1-3 Nov 2004, *Third International Conference* : What feasible common future?



Dhurakijpundit University

# Capability as a Basis of Fair Management

Kiananantha Lounkaew  
Thailand, Political Economy



## Capability as a Basis of Fair Management

Kiananantha Lounkaew  
Faculty of Economics  
Dhurakijpundit University  
[kiananan@dpu.ac.th](mailto:kiananan@dpu.ac.th)

Job-related stress and anxiety of employees are common in all types of occupation regardless of the level of numerical benefits that they enjoy. There are many attempts to relieve these undesired symptoms. To date, the success of such initiatives are at best partial and short-lived.

Why has working caused such undesired consequences? Some may be quick to point out that the nature of work is the chief culprit. This seems convincing. However, a moment of reflection will reveal that such argument is only partially correct. If it were because of the nature of work, we would not find such stress and anxiety across the board. The true cause must be more subtle and common to all types of work.

The one of the most common pattern that emerges is how employees are being managed in an organization. Could it be that the management style itself is one of the cause? If so, what is the reason?

This brings up the issue of fairness. Regardless of the remuneration employees enjoy, if they feel that they are being treated unfairly, dissatisfaction of work is likely to occur. If this argument is true, then there must be something wrong with the contemporary styles of management.

This paper aims at examining characteristics of contemporary styles of management and evaluate their relative fairness. The basic argument of is that contemporary styles of management are not adequately fair to employees. It is also argued that by applying Sen (1999) and Nussbaum (1999)'s capability approach of human development to management, fairer management can be realized. The central idea of this approach is that the ultimate objective of any development program should not only focus on increasing monetary remuneration but it is also equally important to enable people "to walk with pride" (Sen,1999; Alkire, 2002 ).

The outlines of discussion can be divided into five parts. The first section starts by developing a working definition of fair management based on the view that the firm and its employees are trading partners. Then the characteristics of traditional and modern management will be discussed. It is argued that modern management which is relatively more people-focused fits better to the definition of fair management than its traditional counterpart. Thirdly, the discussion on capability approach developed by Sen (1999) and Nussbaum (1999) will be elaborated. The next point of focus is on applying the capability approach to outline the basis of designing fair management. Lastly the paper, ends with conclusion and future research direction.

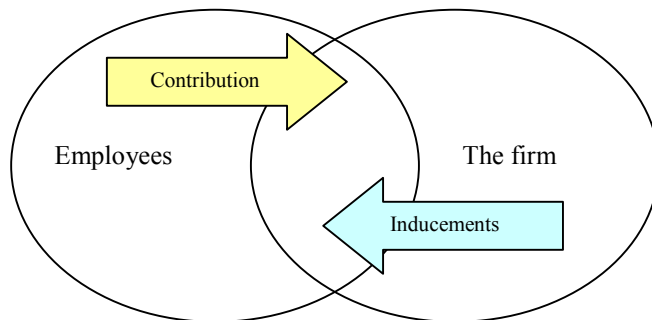
### Definition of Fair Management

According to the behavioral theory, the firm is a coalition of participants- employers, employees, customers, and supplier, for example. In term of employment, the firm provides inducement to employees; employees are thus expected to contribute their labor to the firm. The firm will continue to employ an employee as long as their contribution is greater or equal to the



inducement that the firm has to provide. In addition, inducements have to be sufficient for the employees to supply their contribution (March and Simon, 1958; Cyert and March 1963; Simon, 1991; Douma and Schreuder 1998). This relationship is illustrated in Figure 1. From this view “management” is the way that the firm use to extract employees, contribution and compensate them with inducements.

**Figure 1: Firm-Employees Relation**



Source: Douma and Schreuder (1998) figure 6.1, page 87

Another way of looking at the relationship between the firm and its employees is to take both sides as trading partners. Employees supply their labor in exchange for compensations paid by the firm. Therefore, the heart of fair management is to have a fair trade arrangement.

According the definition proposed by the European Fair Trade Association (EFTA), a fair trade is

"... a trading partnership, based on dialogue, transparency and respect, that seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of, marginalized producers and workers - especially in the South. Fair Trade organizations (backed by consumers) are engaged actively in supporting producers, awareness raising and in campaigning for changes in the rules and practice of conventional international trade"

From the above definition, the chief constituents of fairness are dialogue, transparency, respect, equity, and sustainability of both trading partners.

Combining the concept of management and fair trade, the working definition of fair management is “a reciprocal arrangement between two trading partners- the firm and its employees- which promotes dialogue, transparency, equity and sustainability of both trading partners”.

Having equipped with the working definition, the next section evaluate the two dominant forms of management through the organizational structure: traditional and modern management.



### Dominant Forms of Management

There are many dichotomies that can be used to classified management styles. One of the classifications used is organizational structure. Different organizational structure is the reflection of different management style. Thus by studying structure of an organization, one can understand the underlying management theory-in-use.

This section starts by examining traditional management through the analysis of its managerial instrument: hierarchical organizational structure; then the horizontal organizational which is the instrument of modern management style will be discusses.

#### Traditional Management

The heart of traditional management paradigm is patron-client relationship. The firm is the central focus of attention. All strategies employed will strive for the maximizing and/or sustaining profit. Efficiency is to be applauded, while equity is to be left under the carpet. In this view, employees are resources. They have to be “managed” to ensure that the firm receive maximum benefit from their effort. This can be achieved through efficient command and control through organizational hierarchy.

The hierarchical organization has been designed in such a way that there will be someone who watch over someone else who are in lower hierarchy. A supervisor watch over factory workers; a marketing manager watches over sale forces; a president watches over departmental managers.

This kind of organizational arrangement is characterized by cumulative control loss (Williamson, 1975; Douma and Schreuder 1998). The greater is the hierarchy, the higher is to cumulative control loss. The immediate reaction to this is to exert greater control to compensate such loss. Thus it not surprising to see that large organizations- be them government agencies, multinational companies, or religious institution- possess such deliberate set of rules and regulation.

With such comprehensive set of rules and regulations, the nature of work of most of the employees is mechanical. Employees at lower hierarchy are responsible for carrying out orders assigned to. The minimum requirement for the employees to secure their position is to be able to do what “the boss” told them to do. Those who fail to comply with the stated goal will face negative consequences. All these characteristics of traditional management paradigm is summarized in Table 1. It can be seen that this kind of management style does not fit neatly into our definition of fair management.

**Table 1: Traditional Management**

Aspects	Characteristic	Instrument
Control	Hierarchical	
Discipline	Imposed	
Problem Solving	Mechanistic	
Decision Makers	Managers	
Tasks	Responsibilities	
Management	Command and Control	
Function	Specialist-Groups	
Emphasis	Goal-seeking	

Source: partially excerpted from Taborda, Carlos G. (1999) figure 1



**Modern Management**

In the past decade there are many new management concepts prescribing how an organization should be run. The most commonly known examples are learning organization, knowledge management, empowerment, job enlargement, job enrichment, and customer-focused. All these concepts have one thing in common: people are the heart of organization. Profit maximizing behavior has slowly given a way to maximizing innovation and strategic flexibility.

The analysis is no longer focus on human alone, but human *cum* environment. Employees are the wellspring of knowledge which is the source of competitiveness (Leonard-Barton,1995); the more knowledgeable they are, the greater is the core competency of the firm. Thus sustainable competitive advantage is contingent upon the firm’s ability to nurture knowledge of its workforce. Various strategies to create built-in learning system are proposed. All of them share several commonalities as stated in Table 2 below:

**Table 2: Modern Management**

Aspects	Characteristics	Instrument
Control	Organic commitment	<p style="text-align: center;">Modern Management</p> <div style="display: flex; justify-content: space-around; border: 1px solid black; border-radius: 50%; padding: 10px; margin: 10px auto; width: 80%;"> <div style="border: 1px solid black; padding: 5px; background-color: yellow;">Lead</div> <div style="border: 1px solid black; padding: 5px; background-color: yellow;">Empower</div> </div> <div style="display: flex; justify-content: space-around; border: 1px solid black; padding: 5px; margin: 10px auto; width: 80%;"> <div style="border: 1px solid black; padding: 5px; background-color: yellow;">Assess</div> <div style="border: 1px solid black; padding: 5px; background-color: yellow;">Partner</div> </div> <p style="text-align: center;">and</p>
Discipline	Self-Discipline	
Problem Solving	Participative	
Decision Makers	Employees	
Tasks	Assignments	
Management	Facilitate	
Function	Empowerment	
Emphasis	Teamwork	
	Learning	

Source: partially excerpted from Taborda, Carlos G. (1999) figure 1

This new management paradigm is still in its infancy. Even though many firms, especially large multinational firm, have experimented the concepts classified as offspring of the new paradigm, the results are not as satisfactory as the theory promised.

One reason that account for such phenomena is the inherent perception that is so deeply rooted in our mode of thinking. Even though modern management may have various new characteristics, but the objective is still the one that proposed by its traditional counterpart-sustaining profitability. This results in the stress on developing human resource under suitable organizational environment.

Such initiative is conceptually closer to the proposed definition of fair management; however it is far from being satisfactory. What it fails to acknowledge is that human is a complex being who tries to balance different aspects of life all at once. Therefore, any human resource development program which aims at improving skills and workability of employees could also be destabilizing overall aspect of their lives.

The following section discusses about the capability approach as an alternative basis for conceptualizing a new approach to fair management.



## Part 2: Introduction to Sen and Nussbaum's Capability Approach

Sen (1999) and Nussbaum (1999) have proposed an alternative approach to development which can be the basis for building and refining the modern management paradigm. This concept has been made practical by the work of Alkire (2002). According to them, development is more than just increasing people's income, providing them with basic facilities, and giving them certain degree of security. Evaluative criteria for the success of any development program is the increase of people's freedom to do what they value doing. Because only when people are able to live the life they choose can that "walk with pride".

This approach is built on the two important and closely related concepts: Capability and Instrumental Freedom. The following subsections briefly elaborate these two concepts.

### Capability

There are three type of capability: basic, internal, and combined capability. **Basic capability** is the innate ability of an individual which has not been adequately expressed or developed. A set of basic capability that any individual possess may vary. For example some may be good at mathematics while others may be good at drawing and painting.

Once the basic capability is nurtured through education and training, it will manifest into **Internal Capability**- a state of readiness to act or function (Gagnon and Cornelious, 2000). With the developed set of capability, an individual can take on responsibilities, work, and make decision.

However, internal capability cannot be utilize in isolation; they operate within governing environment. Suitable environmental condition is the prerequisite to the fullest use of internal capability. When this condition is met, internal capability will be transformed into **Combined Capability**.

### Instrumental Freedom

Another element that needs to be illustrated is the instrumental freedom. There are five types of instrumental freedom: political freedom, economic facilities, social opportunities, transparency guarantees, and protective security.

**Political Freedom** relates to individual ability to decide and express their opinion without having to fear negative repercussion. Employees should not be prevented from taking part in any activity they valued doing. Employees must also be able to access to the decision makers whose decision may affect their livelihood.

**Economic Facilities** is the opportunity to make use of economic resources to enjoy consumption, production, and fair exchange.

**Social Opportunity** encompasses such opportunity as education, health care and prevention of sickness, discrimination-free work opportunity, etc.

**Transparency Guarantees** center around the concept of openness and trust achieved through guarantees of disclosure and lucidity. For example, there must be a clear set of rules that will be adhered to by the management whenever in promoting employees; and this set of rules must be known by all employees.

### Relationship between Capability and Instrumental Freedom

Capability per se cannot provide an individual with freedom to live the life employees valued. It is only the prerequisite enabler. One must also be equipped with proper instrumental



freedom. Only then can they enjoy the freedom of choice and choose to live the life they desired (Figure 2).

**Figure 2: Relationship Between Capability and Instrumental Freedom**



Source: partially excerpted from Gagnon and Cornelious (2000) figure 1, page 77

**Capability as a Basis for Fair Management**

Surprisingly, the capability approach has not made its way to the realm of management. The exception being the work of Gagnon and Cornelious (2000) on equality of work. This section attempts to propose that a fair management should be based on the concept of capability-based development. Doing so will not only be beneficial to employees, but it will also be beneficial to the firm itself.

Based on the discussions of characteristics of traditional and modern management, it can be seen that both type of management address the importance of basic and combined capabilities. However, traditional management’s characteristics do not meet the requirement of instrumental freedom. Modern management does considerably better on this aspect. Thus it can be argued that modern management is relatively closer the proposed definition of fair management.

However, to transform modern management into fair management, it still needs to take into account all dimensions of human development (see Table 3 below) so as to have full exercise of instrumental freedoms. Once such freedoms are achieved, freedom of choice of action and quality of life can be attained. This will enable employees to walk with pride as they feel that they are being managed fairly.

**Table 3: Dimensions of Human Development**

Dimension <sup>1</sup>	Characteristics
Life	Physical and mental safety.
Knowledge	Reasonable opportunity to learn and experiment without fear of being punished.
Some degree of excellence in work and pay	Compensation and career advancement should not be based solely on current ability; degree of improvement should also be included as major evaluation criteria.
Friendship and sociability	Trust, mutual benefit, and social acceptance of one’s identity.
Self-expression	Ability and opportunity to express oneself without fearing of negative repercussion.

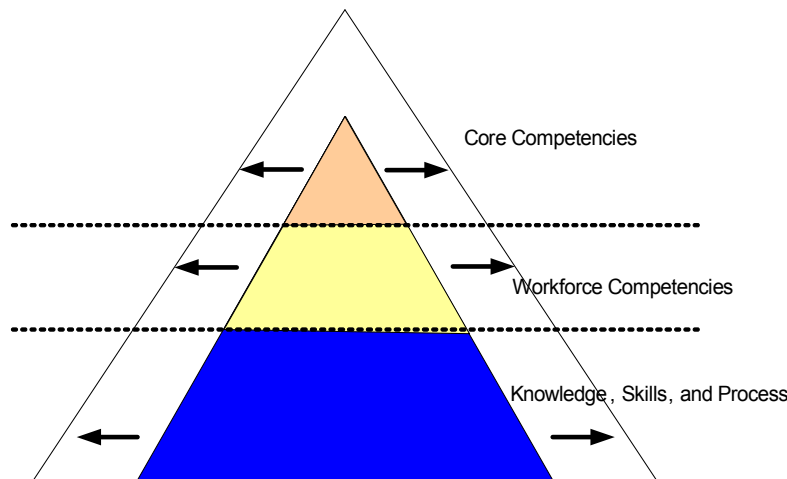


Self-direction	Ability to plan, guide, and monitor their own behavior, flexibly and manipulate environment in order to achieve the desired goal (Felstiner, 1992)
Harmony with wider source of meaning and value	One's ability to pursue one's aspirations in life.

Note: <sup>1</sup>dimensions of human development listed in the table is partially excerpted from Alkire (2002) table 5.2 page 187

One major trade off that the firm has to face in implementing a fair management practice is that it has to relinquish some of its present benefits, especially political power of higher-level managerial figures and short-run profit. But what it will have in return is the expanded set of core competency which will ensure its long-run competitive advantage and profitability. This is possible because the more employees' lives are enriched, the greater their motivation for self development (figure 3).

**Figure 3: Expanded Set of Core Competencies**



Source: based on Curtis et al (2002) figure 2.2 page 22

**Conclusion**

This paper begins by developing a working definition of fair management. The definition is, then, used to analyzes major characteristics of traditional and modern management. It has been found that modern management fits more neatly to the definition of fair management. This is because it acknowledges the importance of employees as a source of competitive advantage which leads to people-centered management style.

However, people-centered in the sense of modern management is still inadequate in addressing the importance of human development as a basis of fair management. Capability approach to development developed by Sen (1999) and Nussbaum (1999) is proposed as an alternative basis for enhancing greater dimension of human development as a center of any



management initiative. This can be accomplished through the enrichment of basic and combined capability coupled with instrumental freedom.

It is also argued that, such approach will be beneficial to both employees and the firm itself. The prime benefit to employees is to enable them to “walk with pride”. The long-run benefits to the firm is the enhanced set of core competency which is the source of sustainable competitive advantage.

To date, the capability approach has not made its way to the realm of management. There is still a lot of work to be done in refining and extending this concept to be more applicable to the discipline. But if such attempt is succeed, we, the academicians will be one of the group who can walk with pride, knowing that our labor have bear the fruit in terms of the betterment of the society as a whole.

## References

- Alkire, Sabina, *Valuing Freedom: Sen's Capability Approach and Poverty Reduction*, Oxford University Press, Oxford, 2002.
- Curtis, Bill, Hefley, Willian E., and Miller Sally A. *The People Capability Maturity Model: Guidelines for Improving the Workforce*, Addison-Wesley, Singapore, 2002.
- Cyert, R.M. and J.G. March, *A Behavioral Theory of the Firm*, Prentice Hall, New Jersey, 1992.
- Douma, Sytse and Schreuder, Hein. *Economic Approaches to Organizations*. Hertfordshire: Prentice Hall, 1998
- European Fair Trade Association (<http://www.eftafairtrade.org/definition.asp>)
- Gagnon, Suzanne and Cornelius, Nelarine, “Re-examining Workplace Equality: the capabilities approach”, *Human Resource Management Journal*, Vol. 10 (4), 2000, pp. 68-87.
- Leonard-Barton, Dorothy, *Wellsprings of Knowledge: Building and Sustaining Sources of Innovation*, Harvard Business School Press, Boston, 1995.
- March, J.G. and Simon, H.A, *Organizations*. John Wiley, New York, 1991.
- Nussbaum, M. “Women and Equality: the Capabilities Approach”. *International Labour Review*, Vol. 138, No.3, 1999, pp. 227-245.
- Sarah Felstiner (1992), *Development of Self Direction*. (available at <http://www.stanford.edu/dept/bingschool/rsrchart/diaz.htm>)
- Sen, A, *Development as Freedom*. Oxford University Press, Oxford, 1999.
- Simon, H.A, “Organization and Markets”, *Journal of Economic Perspectives*, Vol.5(2), 1991, pp. 25-44.
- Tarbordda, Carlos G, “*Leadership, Teamwork, and Empowerment: Management Toward 2000*”. AACE International Transactions, 1999, PM03.1-PM03.4.
- Willaimson, O.E., “Market and Hierarchies: Analysis and Antitrust Implications”, Free Press, New York, 1975.