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From ‘The Concept of the Corporation’ to ‘The End of Employees’

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When Peter Drucker published *The Concept of the Corporation* in 1946, he defined the idea of management as it is known today. His thoughts were developed by observing General Motors, a large, well-integrated global company. In codifying how this company effectively marshaled its thousands of employees spread across functions, departments and the world, Drucker formalized a concept of the corporation as a singular, integrated unit.

In February 2017, a Wall Street Journal article titled “The End of Employees” that focused on the rise of global resources, contractors and other changes to work noted that never before “have American companies tried so hard to employ so few people.”

We have come a long way from *The Concept of the Corporation* to “The End of Employees.”

This evolution from Drucker’s integrated General Motors to a company with no employees went unpredicted in 1946. The path to this outcome had several milestones: Decentralization, lean manufacturing, refocusing on core competencies, global labor and technology all contribute to where we are now.

“Have we come down the wrong path?” is a fair and obvious question for all of us to ask.

Answering this question and understanding the change from Drucker to today require reexamining fundamental questions:

- What is a business?
- What is work?
- What is a job?

What is a business?

At its core, business is an economic activity conducted through a legal entity to provide goods and services for money, at a profit.

What is Work?

Work is what needs to get done for a business to provide goods and services.

Looking deeper at work, it need not be performed by any one business. To explore this, consider a simplified example — the business of providing milk. The business could purchase the milk from some other...
business and resell it. This would require a small amount of work, namely locating a provider and setting up a contract. The milk could be produced in a nearby city; it would not necessarily need to be done on the premises of a business. Therefore, a business is not a place where work is performed.

Alternatively, to provide milk, you could purchase a cow, and then contract a company that feeds, houses, cleans, and milks your cow and cows that belong to other businesses.

In both cases, the work required to provide the milk is not done by the business itself. Work can be bought and is not a necessary function of a business. It is, in fact, a separate concept from what constitutes a business.

What is a Job?

When a person is paid to perform work, a job is created.

Returning to the example above, employing someone to clean, house and milk a cow you owned would result in a job being created. Purchasing milk from a separate party or contracting a company to care for your cow would result in jobs done by someone, but your business would not employ anyone.

A business inherently is not a device to create jobs. Jobs are an outcome of a business, not a goal. In order to provide goods or services, ‘work’ is needed. When ‘work’ can be only be done by a person, a job is created. In actuality, a business has little responsibility to create jobs. If the work required for an economic activity could be done by any means other than employing people, no jobs would be created.

A business, its work and jobs are distinct, independent and unrelated factors.
The Divergence of Business, Work and Jobs

That a business, its work and jobs are all distinct, independent ideas might seem a new concept, but it has been an inherent truth since the inception of the free market.

The trend is only more visible now due to the evolution of technology, and the growth of the global economy.

Businesses, work and jobs all used to be closely related in the past because they had to be. In the early 19th century, cottage industries lacked the scale and technology that corporations possess today. Businesses could only perform work by creating jobs locally, within the business, fusing three separate concepts as one.

A business is a provider of goods and services, but it need not be the producer of either.

In fact, while the delivery of goods and services can be faster than ever before, production is becoming so complex it is impossible for one entity to be able to produce them in their entirety. Consider as an example, a car, which today is as much a computer as an automobile. The computer in the car is an aggregation of navigation, engine efficiency, safety, air-conditioning, music and the warmth of your seat. Any business would be unable to house under one roof the entire set of capabilities needed for a car, from mechanical engineering to electronics to algorithms to stitching fine leather. Instead, a business has to buy work from other experts to produce a good or service.

A business is a network of suppliers, partners and other connections – much more than a producer.

Given how crucial GM was to Drucker’s concept of the corporation, consider the Fortune magazine article describing how Tesla avoided a massive recall by using a software patch distributed over mobile networks to raise the chassis of its 2013 Model S an inch when traveling at highway speeds after two cars had caught fire when debris struck the battery. Tesla and GM both provide essentially the same product, but they are very different companies with very different technology and radically different business models. The difference: Tesla creates about five times as much value per $1 of physical assets and 10 times the market value per employee as GM.2

Globalization, technology and other factors have underscored the separation between businesses, work and jobs.
Value Creation by the Redefined Corporation

Given the reality of how businesses are run today, the word ‘outsourcing’ is outdated. When there is no ‘in-’ to begin with, there is no ‘insourcing’ that can be ‘outsourced.’ Most businesses are realizing some portion of their business they used to do themselves is better done by others and are now buying that work from experts.

Consider the smallest of small businesses: individual craftspeople. If someone wants to sell the goods they create by hand online, they have a choice. They can produce their own online shop by creating a website, building their own payment processor and the other time-consuming tasks from the ground up. Alternatively, they could use a service like Etsy or Ebay and be ready to sell within a day. Both of these companies employ workers all over the globe to run their retail platforms. Work is done. Jobs are created, but not by the craftspeople. Large companies make the same choices, just at a greater scale.

A redefined concept of the corporation is necessary in today’s era of heightened customer expectations, digital disruption and increased competition.

Organizations are leveraging this evolution of what constitutes a business to enhance efficiencies and create more value.

Consider the following examples from the World Economic Forum of new kinds of value across various industries that can be driven by the digital technology that increasingly underpins and enables today’s concept of a corporation:

- **Logistics**: Over the next decade, digital technology in the logistics industry will lead to creation of 2 million jobs and reduce carbon emissions by 10 million tons. The total value of digital initiatives is expected to be $1.5 trillion.

- **Healthcare**: Smart, connected medical devices could save the US healthcare system more than $30 billion a year, while telemedicine could reduce hospital admissions by 35%.

- **Electricity**: Key technology including connected sensors and real-time analytics could generate $1.7 trillion for the electric industries, while reducing carbon footprints by 16 billion metric tons and create more than 3 million jobs.
Automotive: The industry could generate more than $700 million from advances in safety technology with the potential of saving more than 1.2 million lives and reducing carbon emissions by 540 million metric tons.

A redefined concept of the corporation is necessary in today’s era of heightened customer expectations, digital disruption and increased competition. Companies in virtually every industry must transform. There is simply a greater understanding of businesses as providers of goods and services, not just producers. Consider how insurers partner with other businesses to process insurance claims. When customers filing a claim speak with an employee of one of these partners, they are working with a representative of a company the insurer believed could do this job better or faster than they could themselves – a decision that also keeps premiums at competitive prices.

The concept of the corporation has changed, but not for the worse.

The concept of the corporation has changed, but not for the worse. Understanding today’s concept of the corporation is important for CEOs and others in the C-Suite, especially in light of a political narrative around job protection and the media who win readers with headlines such as “The End of the Employees.” However, aside from the response to politics or media, CEOs and other business leaders need to understand the impact of the accelerated decoupling of business, work and jobs across a range of issues including:

- How to design organizations around this new concept of the corporation
- A tighter focus on value creation and better communication about the value they create
- Transitioning plans for today’s “as is” state to future business models
An Outside-In View of Organizational Design

A company’s organization structure is a key element of maintaining or accelerating a company’s growth and profitability. The natural instinct of most senior leadership teams when they think of organizational design is to visualize the current and future corporate structure as it exists internally. Because business, work and jobs are unrelated and independent, CEOs should think about the best way to deliver the work their business needs rather than the best way to redesign their traditional structure. This approach requires an “outside-in” view. A company’s future-state organization design might require a larger network of partners, suppliers, joint ventures or other experts that collaborate to generate greater value than the company could achieve from a similar structure that exists internally across traditional silos.

Value Creation vs Job Creation

CEOs and their colleagues have long been focused on value creation, but their communication tends to emphasize job creation within their own companies, especially when dealing with the media or when announcing new strategic initiatives.

Clarity on the fact that a business is there to provide services or goods will help CEOs design effective value creating plans that deliver returns to those who have invested capital, customers, partners or the public at large. This should be a CEO’s primary focus.

Building a Narrative to Communicate Value

The notion of creating value instead of jobs needs to be communicated proactively. A new narrative needs to be built, one that highlights the primary purpose of a business: To create value for an economy or a society as a whole. One example is the broader revolution of mobile devices. Although globalization is commonly associated with providing less expensive technology to consumers, the impact is much more wide reaching.
From the explosion in mobile gaming to the health benefits of wearables to web access for Americans who lack broadband to the pricing of commodities by rural farmers in China, the value created by mobile devices far outpaces the work done and jobs created by any one mobile technology company, even Apple.

Executive leadership teams in partnership with HR would have to build a relationship with employees so the internal workforce is constantly focused on value creation. This engenders a relationship where employees acknowledge that employment is a contract that delivers mutual value and not an obligation that either the employer or employee is morally bound to honor under all circumstances.

**Transition Strategies**

Transitioning from the old model of the concept of the corporation to new one is challenging, as will be the continued evolution toward a global ecosystem of partners, suppliers and technology that further disentangles businesses, work and jobs.

Such a transition cannot be successfully enabled by sheer force. All parties, current and future employers, businesses and their partners will need to deploy well considered change management efforts that are built upon rational and empathic communication platforms. All parties would have to invest in building the narrative, obtaining buy-in and absorbing the cost of a sensitive transition.

**In Conclusion**

The value creation potential of every business is significantly enhanced when the corporation.business does not take upon itself to do all the work that the business requires. The new concept of the corporation as a network of partners is here to stay. Smart businesses are not questioning this change; smart businesses are busy developing thoughtful transition strategies.

**References**

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