Photograph by Matthew Septimus

Recent Studies

On corporate theater, social enterprises, activity-based cost accounting, and other topics of interest.

Research Notes by Des Dearlove and Stuart Crainer

The Play's the Thing

Timothy Clark (timothy.clark@durham.ac.uk) and Iain Mangham (ilmangham@aol.com), "From Dramaturgy to Theatre as Technology: The Case of Corporate Theatre," *Journal of Management Studies,* Vol. 41, Issue 1, January 2004. www.blackwell-synergy.com

There's nothing like a night at the theater to stir people's passions and drive people into action; that was Hamlet's idea when he put on a play within a play to trigger the conscience of the king. According to Timothy Clark, professor of organizational behavior at Durham Business School at the U.K.'s University of Durham, and Iain Mangham, a senior visiting research fellow at King's College, University of London, "corporate theater" is increasingly being used to spice up business conferences, annual meetings, and product launches, and to attract audiences to "a company's service, product, and/or slogan." The corporate live events sector is an industry worth even more than £500 million ($900 million) in the U.K. alone, with 200 companies offering the service. The cost of these events can

Des Dearlove (des.dearlove@suntopmedia.com) is a business writer based in the U.K. Mr. Dearlove is the author of a number of management books and a regular contributor to *strategy+business* and *The (London) Times.*

Stuart Crainer (stuart.crainer@suntopmedia.com) is a business writer based in the U.K. and a regular contributor to *strategy+business.* He and Des Dearlove founded Suntop Media, a publishing and training company providing business content for online and print publications.

range from £100,000 ($180,000) to millions of pounds.

The events are part evangelical rally, part Broadway extravaganza, as Professors Clark and Mangham found out when they were invited to watch the development and performances of a piece of theater put on by a bank that had recently undergone a merger. At this performance, the audience was made up of employees from throughout the recently merged organizations. The show, featuring managers and other bank employees alongside a TV personality and the band the Corrs, took place in a 5,000-seat arena. The performance was titled "Your Life. Your Bank." Its purpose was to celebrate the merger, but at a deeper level, the company hoped that the theatrical experience would galvanize the audience into becoming champions of the new corporate culture on their return to the workplace.

The authors' assessment is that the audience's reaction was highly enthusiastic, but they also note that there were some indifferent executive performers who didn't show up for rehearsals. Corporate theater, the authors conclude, is most effective when it is used to encourage camaraderie and team spirit among employees, rather than to foster deeper strategic thinking.

As Easy as ABC?

Robert S. Kaplan (rkaplan@harvard.edu) and Steven R. Anderson (sanderson@acornsys.com), "Time-Driven Activity-Based Costing," Harvard Business School Working Paper Number 04-045. www.hbs.edu/research/facpubs/workingpapers/papers2/0304/04-045.pdf

For nearly two decades, Activity-Based Costing (ABC) has been the accounting equivalent of a white knight — the methodology that, its supporters say, has the potential to rid business of the imprecise and inaccurate measures of profit and loss used in traditional accounting. ABC assigns the costs of manufacturing a product or providing a service to specific activities — such as research and development, market analysis, cleaning a widget for assembly, sales campaigns, and so on — not to the more generalized accounting categories like raw materials, overhead, and salaries. Ideally, ABC offers a realistic portrayal of individual cost drivers and a more accurate assessment of total costs, so that management can make more educated decisions about how to sustain profitability for each of the company's products and services.

But ABC is not always the most desirable option. It has one primary drawback, according to Robert S. Kaplan, the Marvin Bower Professor of Leadership Development at Harvard Business School, and Steven R. Anderson, chairman and founder of Acorn Systems Inc.: ABC can be time consuming and, therefore, expensive. To properly implement the ABC methodology, companies must conduct detailed examinations of what goes on in each step of the design, development, and delivery of every product and service. That approach involves extensive interviews and surveys to identify core processes and to analyze costs at each stage in an operation.

In their paper, Professor Kaplan and Mr. Anderson cite one organization with 14 people working full-time on ABC data collection; another that requires 12 people and months of work to simply update its ABC model; and a third whose

automated system requires three days to work through the costs generated by 40 departments, 150 activities, 10,000 orders, and 45,000 line items.

To address the time-intensive and resource-intensive nature of ABC, Professor Kaplan and Mr. Anderson propose what they call "time-driven activity-based costing." This approach involves deriving the price of an operational activity from rough estimates of the time required to perform it, rather than attempting to specifically measure the precise cost of every activity, at every stage, as ABC would require. This is possible to do without making the cost analysis inaccurate, the authors argue, because certain business activities and process costs tend to be consistent within an industry, a company, or a function.

Illustrating the quick implementation advantage in this approach to ABC, the authors describe the time-driven ABC system installed at a wholesale parts and materials supplier of steel, aluminum, and fiberglass (Klein Steel, based in Rochester, N.Y.). In just two months, using an industry template instead of a mountain of internal data, Klein has been able to produce a model that identifies specific activity costs by product, customer, order size, and distribution site.

Through this process, Klein found, among other things, that 25 percent of the its customers and several distribution routes were unprofitable. On the basis of its new costing model, the company was able to set a target for annual earnings increases of more than $700,000 from specific process improvements, such as tying sales commissions to customer profitability benchmarks.

This example suggests the time-based approach could mark an important breakthrough for ABC as it evolves into a more powerful mainstream management tool.

A Matter of Trust

Daniel Yankelovich (dany@viewpointlearning.com) and Steve Rosell (rosell@viewpointlearning.com), "Making Trust a Competitive Asset: Breaking Out of Narrow Frameworks," report of the special meeting of senior executives on *The Deeper Crisis of Trust,* New York, May 15–17, 2003. www.viewpointlearning.com. For a copy of the report, e-mail info@viewpointlearning.com

Businesspeople may attribute recent corporate scandals to "a few bad apples," but the public isn't buying it. A 2002 Gallup Poll found that almost 80 percent of the public believes corruption is endemic in the corporate world and that executive greed and immorality are the top causes of current economic woes.

This is the third major crisis of confidence that corporate America has faced since the 1930s, say Daniel Yankelovich and Steve Rosell, principals of Viewpoint Learning, in a report that grew out of a May 2003 discussion on the loss of trust in the business world. The discussion was attended by executives from Hewlett-Packard, Coca-Cola, Royal Dutch/Shell, Monsanto, and Toyota, among other major corporations, and academics from the University of Warwick Business School.

The first two crises of confidence — the Great Depression of the 1930s and the "stagflation" of the late 1960s through 1980 — were marked by a weakening of confidence in the free-market economy and public disillusionment in big business, respectively. But this third crisis is different, the authors say, because senior executives, not just corporations, are viewed as being directly responsible for the scandals. Their over-the-top compensation; excessive management perks; and perceived willingness to trade jobs, environmental standards, and labor rights for profits squeezed out of globalization have fanned mistrust in the individuals who run companies and, secondarily, in the companies themselves. The impact so far has been new laws such as the Sarbanes-Oxley Act; demands that executives be punished; and the emergence of corporate integrity as an important competitive factor.

Reversing the current wave of mistrust, the authors argue, requires profound changes in both corporate and management attitudes and behavior. Companies must move away from jealously managing corporate image or spinning the truth to influence public opinion and, instead, practice open and honest dialogue to build "trust equity" with the public. In addition, they must get beyond a singular focus on maximizing near-term shareholder value no matter the cost to society. Companies need to accept the idea that creating social capital boosts shareholder value in the long run. Companies should recognize that they are increasingly reliant on the goodwill and commitment of their most talented workers. In this environment, command-and-control leadership is ineffective, and listening to different viewpoints from every level of the corporation is required.

The report recommends three practical steps companies can take

to begin to build their social capital, to help restore public confidence in business, and to use integrity as a competitive weapon:

- Work with Wall Street analysts to develop new performance metrics that quantify a company's trust equity.
- Overhaul leadership development programs to reflect the new skills needed by top executives, including the ability to quickly understand the interests of diverse stakeholders — among them, employees, investors, the media, suppliers, communities, nongovernmental organizations, and regulators.
- Systematically engage key employees and stakeholders in strategic dialogues that push people outside their "comfort zones" and encourage them to challenge standard ways of operating.

A World of Ideas

Daniel F. Spulber (jems@kellogg.northwestern.edu), "Competing in the Global Marketplace of Ideas," December 2003. www.kellogg.northwestern.edu/academic/international/research/papers.htm

Everyone knows intuitively that the globalization of business is rapidly expanding the marketplace for ideas. Yet academic research that quantifies this trend and explores some of its implications is only beginning to surface.

In this paper, Daniel F. Spulber, Elinor Hobbs Distinguished Professor of International Business at Northwestern University's Kellogg School of Management, tries to quantify what he terms "global technology trade" by examining the number of patents taken out in the United States by non-U.S.-based organizations and individuals. Developed countries, in particular Japan and Germany, dominate most of the activity. In 2002, the Japanese registered 34,859 patents in the United States, and Germany registered 11,277. China registered only 289 patents, India 249, and the Russian Federation 201. Most African countries, which are struggling to join the global economy, are barely represented in this list of U.S. patents; only South Africa is noticeable, with 114 patents.

Professor Spulber has also tracked the increased globalization of corporate R&D. Intel, Motorola, and General Electric are among the corporate giants he cites that are performing major R&D activities in India and China. Ventures like these spur technology trade in licenses, blueprints, and industrial processes. In fact, the internationalization of R&D is partially responsible for new pacts protecting intellectual property, such as the World Trade Organization's Trade-Related Aspects of Intellectual Property Rights (TRIPS) agreement.

Professor Spulber presents a three-stage model involving inventors from two different countries to better understand the growing international competition in technology ideas. In the first stage, the inventors introduce their innovation in their respective domestic markets and develop competing processes and technology. In the second stage, the two inventors either sell their discoveries to companies in their domestic markets, or if an international market exists for their invention, they compete to sell their discoveries globally. In the third stage, the companies produce differentiated, rival products based on the original inventions. The purpose of the model is to show the international competition among individual inventors, and how it eventually affects global technology trade among corporations.

What Professor Spulber describes is a free-for-all. Indeed, there is likely to be a host of similar or identical competing inventions emerging from different countries. And with knowledge being transferred rapidly and inexpensively to multiple suppliers of products and services, making sense of the market risks and opportunities becomes as much of a challenge as is actually conceiving the inventions themselves. For corporations, one of the new critical tests of creating value from innovation, posits Professor Spulber, is being able to manage and coordinate R&D globally to harness its full potential in this exciting but complex marketplace of ideas.

A New Kind of Company

Johanna Mair (JMair@iese.edu) and Ernesto Noboa (ENoboa@iese.edu), "The Emergence of Social Enterprises and Their Place in the New Organizational Landscape," IESE Business School Working Paper Number 523, October 2003. www.iese.edu/research/pdfs/DI-0523-E.pdf

The term "social enterprise" is a relatively recent addition to the business lexicon. It describes organizations that embrace business principles to achieve a social mission, rather than solely to maximize profit. In a sense, social enterprises blur the divide between traditional for-profit, not-for-profit, and public sectors. But to date, a satisfactory classification for these new types of

The "social enterprise" is a hybrid business form with advantages over for-profit companies, two IESE scholars argue.

organizations has proved elusive. In this paper, Johanna Mair, assistant professor of general management at the Spanish business school IESE in Barcelona, and Ernesto Noboa, a doctoral candidate at IESE, examine the social enterprise phenomenon and offer their own organizational taxonomy.

The social enterprise, they argue, is a "hybrid" business form, which gives it a number of advantages over traditional for-profit organizations in making social goals a centerpiece of its business model. Like for-profit businesses, social enterprises seek to be financially self-reliant. But unlike commercial enterprises, they do not have shareholders so they can use any surplus profit they generate to further their social mission. Because social enterprises don't have the same kind of profit-maximizing imperative as for-profit enterprises and have an "explicit mission to benefit the community and a specific group of disadvantaged citizens," the authors say, social enterprises play a unique role in channeling resources to create jobs, promote local development, and achieve other societal benefits. Professor Mair and Mr. Noboa conclude that social enterprises are an original and highly complex type of organization within the nonprofit sector.

Pioneer Human Services of Seattle, Wash., illustrates this well. The company provides jobs, housing, training, and other services to a work force of 700 past criminal offenders and substance abusers. These people are placed in jobs at a series of businesses owned by Pioneer, including a light metal fabricator that is Boeing Company's sole supplier of sheet-metal liners. They are also employed at a downtown Seattle hotel. Pioneer's annual revenue is about $50 million.

Professor Mair's and Mr. Noboa's research also adds to the work of Barry Bozeman, a professor of public policy at Georgia Institute of Technology (Georgia Tech), who reexamined the taxonomy of enterprises by categorizing organizations according to their exposure to certain political and economic factors. So, for example, aerospace firms, which are heavily reliant on government contracts, are more vulnerable to political influence than commercial firms that answer primarily to the marketplace.

Professor Mair and Mr. Noboa build on this taxonomy by adding a third dimension they call *social authority*. Social authority reflects the extent to which an organization's effectiveness is dependent on such factors as its reputation and public trust. A small nonprofit, funded by donations from individuals, for example, must be far more concerned with its social reputation than a purely commercial enterprise. By this measure, the authors say, social enterprises bear less social responsibility than pure nonprofits, and face considerably more pressure to make positive contributions to society than corporations. At the same time, they also occupy a new middle ground between nonprofit and for-profit enterprises when it comes to economic and public authority. This is a valuable insight because it repositions social enterprises from the margins of commercial life to its center.

As all organizations come under increasing pressure to be more accountable to multiple stakeholders, social enterprises, which must carefully balance social, political, and economic concerns, have much to offer. +