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What's in the Journals, June 2004

Jun 23rd 2004
From The Economist Global Executive

A quick look at noteworthy articles from business journals

Strategic Management Journal
July 2004 (Vol. 25, Number 7)
"Believing one's own press: the causes and consequences of CEO celebrity"

Part of "attribution theory," as currently studied by strategy specialists, is the belief that people frequently err when assigning credit or blame for events: if you're late, for example, you may blame traffic, while another person might say you're lazy. Three professors, Matthew Hayward from the University of Colorado at Boulder and Violina Rindova and Timothy Pollock from the University of Maryland at College Park, say attribution theory can account for a lot of "CEO celebrity": as a company's performance improves, journalists tend to attribute its success to the actions of the chief executive rather than to other factors–and the chief executive tends to agree with them.

This ego-puffery can have serious consequences for the company, as the chief executive becomes overconfident and wedded to the strategies that won him the original praise. While the authors aren't ready to offer solutions, the paper does strongly suggest that companies need to create some sort of mechanism that keeps chief executives from taking their praise too seriously.

Journal of Management
August 2004 (Volume 30, Number 4)
"The effects of top management team pay and firm internationlisation on MNC performance"

Previous research has shown that the more international a firm, the greater the pay for its chief executive. Building on that, Mason Carpenter, a professor at the University of Wisconsin-Madison, and Willliam Gerard Sanders, who teaches at Brigham Young University, decided to look at the effects of both executive compensation and internationalisation on firm performance. After looking at 224 multi-national firms with an average size of $9.3 billion, they found, first, that the chief executive was often paid significantly more than other members of the top management team–an average gap of more than $1.5m. Moreover, they found that firms with greater pay gaps between the chief and top management performed worse.

There was a positive correlation between top management pay and firm performance, but not between chief executive pay and firm performance. Yet the authors warn that shareholders and compensation committees should not look to increase the management team's salaries at the chief's expense, but "instead give close attention to the need for the entire top team, including the CEO, to function as an integrated team."

Harvard Business Review
June 2004 (Vol. 82, Number 6)
"Sharpening the Intangibles Edge", "Capitalising on Capabilities", "Redefining Competition in Health Care"

The Harvard Business Review offers a festival of food for thought in this month's edition. In "Sharpening the Intangibles Edge", Baruch Lev of New York University's Stern School of Business argues that neither managers nor the market correctly value intangible assets—a major oversight, given that companies spend about $1 trillion a year on them, on par with total corporate investment in physical assets. Determining intangibles' value is, of course, a mite tricky (otherwise they'd be tangible, no?) but Professor Lev offers some good guidelines. A companion piece, "Capitalising on Capabilities", by Dave Ulrich and Norm Smallwood, instructs managers to perform a "capabilities" audit to help value "intangible strengths" such as leadership and talent.

Pride of place, however, goes to a long piece titled "Redefining Competition in Health Care". In this, Elizabeth Olmstead Teisberg of the University of Virginia's Darden School of Business and Michael Porter, the Harvard Business School professor best known for his ubiquitous "five forces" model, contend that the problem America's health-care system is competition in all the wrong places. They detail the ways in which competitive pressure, particularly the relentless drive to shift costs on to someone else rather than create value, provides perverse incentives that erode the quality of care. But though the meat of the article is fascinating, the proposals advanced for fixing the problems they highlight are less satisfying. Most of the issues identified can be traced to a single source: the fact that employers purchase health insurance in bulk for their employees. Since that won't change until the tax breaks that support this practice are eliminated, the authors are reduced to begging companies to altruistically stop worrying about costs.

If you can find time to read these articles, you should also make sure to browse the cartoon section. This month's subject is getting sacked, and some are wickedly funny—so wickedly funny that we wonder how the editors can be so confident that the recently terminated are a demographic they can afford to offend.

Capital Ideas
June 2004

The University of Chicago's Graduate School of Business has chosen to turn its website into a showcase for research papers from its faculty, this month focusing on marketing. A couple of the papers highlighted might be too specialised for general interest, but could be quite useful for managers in the field. "The Market for Personal Digital Assistants", for example, focuses on whether personal digital assistant manufacturers should put resources into improving the hardware or expanding the number of programmes than can run with the software. (Software, say the authors.)

But a paper on marketing prescription drugs, which at first glance seems similarly limited, should get a second look. The authors found that pharmaceutical companies, in making direct calls to doctors, spent much of their time and energy going after those who wrote lots of prescriptions, instead of targeting the most responsive doctors. The tendency to focus on the most difficult customers and neglect the sure things is probably not limited to pharmaceutical sales.

Other articles in the series have a broader reach. "Weighing the Options" looks at what happens when two similar products are presented together. Two products with value higher than average will decrease each other's value, while two lower-than-average valued products will make each other look better. "Banner Ads Click with Consumers" finds that online banner advertisements, while not the wonders they were at first believed to be, do bring customers to a site—eventually. Overall this is a worthwhile package of marketing research, especially since several of the papers presented here have not yet been published.

Academy of Management Journal
April 2004 (Volume 47, No. 2)
"The impact of team empowerment on virtual team performance"

Following the *Harvard Business Review*'s May look at handling virtual teams ("Can absence make a team grow stronger?"), the *Academy of Management Journal* has a study of what "team empowerment" means for teams, especially those with few face-to-face meetings. First the authors, from four American universities, set out the four dimensions of team empowerment: "potency," or the shared belief that the team can be effective; "meaningfulness," in which team members care about their work; "autonomy," which means team members feel they can make decisions; and "impact," or the belief that their work will make a difference. After polling more than 300 virtual team members of a web-based travel services firm, the authors concluded that the fewer face-to-face meetings a team had, the more vital it was for the team to feel "empowered." Empowerment turned out to be a bigger factor in performance than meeting time: highly empowered teams scored equally well in customer-service rankings, regardless of the number of face-to-face meetings they had had.