Proposal to Develop a

Socio-Economic Model of the Corporation

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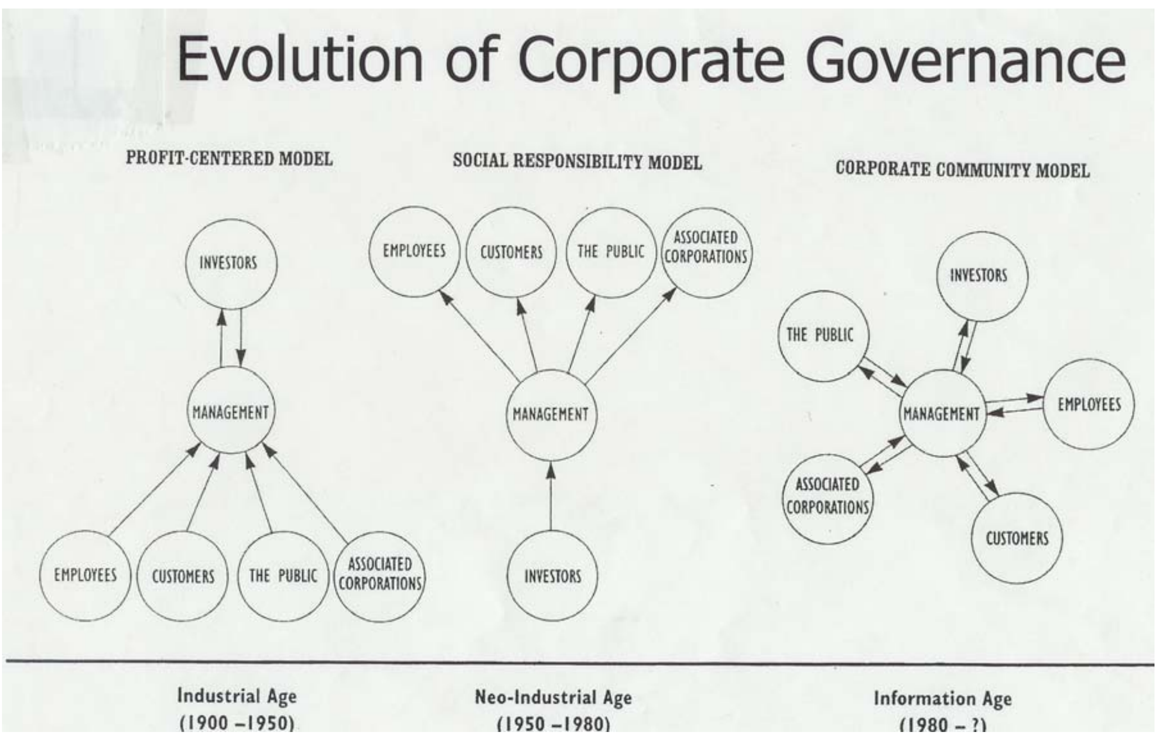
The large publicly-owned corporation is the most powerful institution in the world, yet it may also be the most poorly understood.

The Socio-Economic Challenge

One of its most confusing features is the clash between profit versus employees, customers, the environment, the public, and other stakeholders. Corporations actually create enormous social benefits, but the sharp focus on money places business in a self-serving posture inherently opposed to the Democratic ideals of community and public welfare. The concept of social responsibility has been cultivated to address this issue, and some prominent firms have thrived under this philosophy. But the focus on ***responsibility*** has generally caused it to be seen as philanthropy, a luxury that diminishes the ability to compete. The consensus of research studies shows a weak relationship between responsibility and profitability. [1] As Figure 1 illustrates, the evolution of the corporation seems to have stalled at a point of confusion over the interests of capital versus society.



Reproduced from Halal, *The New Management: A Guide to the Parallel Revolutions in Technology, Business, and Leadership* (Berrett-Koehler, 1998)

This stalemate is highlighted in the US. The prevailing American model of business excels at creating wealth, but the social costs are huge. A single-minded focus on money is largely responsible for creating the largest gap between rich and poor since the Great Depression, a history of Enron-type financial scandals, exorbitant CEO pay, and a backlash against globalization. Because business interests influence national policies and culture, this same problem has also fostered unprecedented Federal budget deficits and lower quality of life than Europe, Japan, and other modern nations. The issue was highlighted when a respected professor condemned prevailing corporate practices. [2]

The Emerging Knowledge Corporation

A richer model has been emerging that views business as a ***socio-economic institution*** or a ***"corporate community."*** [3] (Figure 1) With the rise of a knowledge-based global economy, it has become apparent that knowledge assets are becoming more crucial to economic success than capital. Managers today are dependent on educated employees to produce innovative, high-quality work. Fierce competition has forced a constant drive to better understand customers' needs. Alliances with suppliers and other business partners are now a competitive advantage. And the environment has become a strategic concern as developing nations triple the level of global pollution. Surveys show 80% of managers now understand they must collaborate with their stakeholders. [4]

Table 1 present results of previous research modeling these resource flows of the typical corporation. The data illustrate that social resources are several times as large as the financial sums, confirming that social issues are of huge importance and roughly comparable to financial interests. The data also highlight the inherently creative role of business in creating social wealth as well as financial wealth by integrating diverse resources into a synergistic whole. The main conclusion of this line of work is that a far more productive and legitimate role awaits the large corporation.

Table 1 - **The Socio-Economic Corporation**

Corporate Model

Stakeholder	Resources (R)	Benefits (B)	Costs (C)	Return-0n-Resources (B-C/R)
Investors	Equity/debt	Dividends/Interest Capital gains	Capital Losses	Return-On-Investment
Employees	Education, Training, Knowledge	Wages & Benefits, Job Satisfaction	Disabilities, Meals & Travel, Job Dissatisfaction	Return-On-Human Resources
Customers	Search costs, Purchase Price	Utility (consumer surplus)	Damages, Depreciation, Maintenance	Return-On-Purchase
Public	Public Assets	Taxes, Contributions	Public Services, Environmental Damage	Return-On-Public Assets
Associated Firms	Assets of Firms	Sales of Firms	Expenses of Firms	Return-On-Associated Assets
Total Corporation	Total Resources	Total Benefits	Total Costs	Return –On Resources

Corporate Analysis
($ Thousands)

Stakeholder	Resources (R)	Benefits (B)	Costs (C)	Net Return (B-C)	Return-0n-Resources (B-C/R)
Investors	$ 9,993	$ 583	$ 234	$ 349	3.5%
Employees	36,520	1,691	57	1,634	4.5
Customers	10,533	4,066	2,249	1,817	17.3
Public	2,536	338	375	-37	-1.5
Assoc'd. Firms	507	314	312	2	.4
Total Corp.	$60,089	$6,992	$3,227	$3,735	6.3%

Results from a computer simulation reported in Halal, "A Return-0n-Resources Model of Corporate Performance," California Management Review (Summer 1977) Vol. XIX, No. 4;

Proposal

This project aims to develop an online model of all these interactions to better understand the interplay between financial and social concerns. The relatively simple model described above was so successful that it won awards. [5] We now intend to develop a sophisticated version that can be run on PCs, allowing business students, managers, and the public to experiment with various policies and to observe the effects on profitability, social impacts, and other outcomes. Ideally, the model would be so realistic and inviting that people would be eager to use it, like a computer game.

We estimate the model could be constructed in about 1-2 years by the principal investigator, a colleague skilled in computer modeling, and a website designer. Total costs are estimated at roughly $500,000. This model could dramatically improve the understanding of the socio-economic realities of any enterprise, and thereby encourage more enlightened corporate strategy and national policies. It could also result in seminal publications that report the results of this work.

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[1] Harrison and Freeman, "Stakeholders, Social Responsibility, and Performance," *Academy of Management Review* (1999) Vol 42, No. 5

[2] S. Ghosal, "Bad Management Theories are Destroying Good Management," *Academy of Management Learning & Education* (March 2005), Vol 4, No. 1

[3] See Halal, "The Collaborative Enterprise: A Stakeholder Model Uniting Profitability and Responsibility," *Journal of Corporate Citizenship* (Summer 2001) Vol. 1, No. 2

[4] Halal, "The Collaborative Enterprise," Op Cit.

[5] Halal, "Beyond the Profit-Motive," *Technological Forecasting & Social Change* (June 1978) Vol. 12, No. 1.