

THE RELATIONSHIP AMONG MANAGEMENT QUALITY, VALUE DRIVER AND ECONOMIC VALUE ADDED

Chih Chuan Chou, Department of Business Administration, National Chung Cheng University, 168, University Rd., Min-Hsiung, Chia-Yi, Taiwan, 886-5-2219700-130, andy@mail.kcdairy.com.tw

Derek Teshun Huang, Department of Business Administration, National Chung Cheng University, 168, University Rd., Min-Hsiung, Chia-Yi, Taiwan, 886-5-2720411-34305, bmatsh@ccu.edu.tw

Yi Ying Lee, Department of Business Administration, National Chung Cheng University, 168, University Rd., Min-Hsiung, Chia-Yi, Taiwan, 886-6-2036417, yiyong6471@yahoo.com.tw

ABSTRACT

A firm's value creation is closely related to its management capability. The sample of this study includes 15 firms of Taiwan food industry from 1996 to 2005, and we use the multi-regression analysis to test the relationship among top management team, value driver, and economic value added (EVA). The empirical results show that the top management team characteristics and value driver have significant relationship with EVA in the food industry.

INTRODUCTION

The upper echelons theory indicated that the top management team (TMT) is the deterministic factor for organization performance. Traditional performance measures focus on financial performances that reflect the past achievement, and neglect strategic activities that create long-term future value. We choose economic value added (EVA) to be the performance indicator for that EVA explores the benefits of intangible asset, that reflect both financial and non-financial assets. Taiwan food companies use strategic alliance to reduce production costs by outsourcing, and concentrate on marketing and new product research and development in hoping for satisfying consumer needs, and in line with environment change. The study hopes to propose a proper way of measuring TMT quality to analyses the relationship between TMT quality, value driver and EVA.

LITERATURE REVIEW

The TMT is an important corporate resource, because they control corporate strategic decision making and implementation. The TMT consists of the five highest paid executives in an organization [1]. Individual characteristic, include demographic variables, had significant impact on corporate short-term performance [4]. Other studies of the TMT and their performance focus on the member's homogeneity or heterogeneity [4], the size [3], and the ratio of family members. The management team with the big size and CEOs do not holding concurrent positions have better profits. [3]. The value driver is the major impact factor of the result of operating and financial, and the creation of the shareholder rights is closely linked

with seven value drivers, which includes sales growth, net income before tax and interest, tax rate of cash expenditure, working capital, capital expenditure, the weighted average capital cost (WACC) and competitive advantage period [5]. The EVA as a performance indicator is better than the earnings, and can assist the management and the investor to understand true operating performance [2]. Economic value added with the adjustment items of equity equivalent will provide the fulfillment information to explain the change of future earnings and the return of stock price [8].

RESEARCH METHOD

EVA has a higher explanatory power on corporate operating performance [2]. The value driver is the major impact factor of the result of operating and financial [5]. Thus, we propose the hypothesis is “Top management team characteristics have significant positive relationship with EVA on Taiwan food industry.” We select 15 companies of the food industry during 1996-2005, and variables were obtained from TEJ database and company annual reports. The dependent variable is EVA that measures incremental value created by corporate operating activities, and calculated according to the definition by [6] and [7]. This study follows [6] using three methods to calculate the EVA. Considering data availability in Taiwan’s public information, we make the uniform adjustment for accounting items from TEJ, such as R&D expenses, selling expenses and reserves. The independent variables are TMT experiences, strategic stability of the TMT, the ability of TMT in respond to economic downturn, and professional capability of the TMT. The control variables are sales growth, EBIT growth, tax rate, working capital, capital expenditure, and competitive advantage period.

EMPIRICAL RESULT

We proceed with variance inflation factor (VIF) for all regression models to test for the multicollinearity. VIF values are all between 1.078 and 1.587, indicating that multicollinearity is not a problem. Results show that the average education level of TMT is between college and university, and their average tenure in office is 5.9 years. TMT member holding one or more concurrent positions is 72%. About 65% of the firms have positive sales growth, and 48% of them have positive net profit income growth. Average annual working capital is NT\$239.53 million, and average annual capital expenditure, NT\$44.84 million, in food industry. Value drivers are significantly related to EVA (P-value are all less than 0.011), and the EVA2 has the highest explanatory power ($R^2=0.464$). Working capital has significant positive relationship with EVA (P-value are all less than 0.015) that means raising working capital can be helpful in promoting corporate value. Adding TMT characteristics, the TMT dedication and professional capability have significant relationship with EVA (P-value are all less than 0.002). EVA2 has the better EVA explanatory power ($R^2=0.551$). Therefore, we can conclude that overall TMT characteristics have the impact on the EVA.

CONCLUSION

The main purpose of this study is to explore the relationship among top management team quality, value driver, and EVAs. The empirical results show that the value driver is the main factor in corporate value creation, and the most important value driver is the operating capital, which has significant positive relationship with EVA1, EVA2 and EVA3. The empirical results show that TMT professional capability and dedication and production and marketing capability have significant positive relationship with corporate value in the food industry. The corporate value is created by people and that only an able management team can create corporate EVA. Therefore, top executives must consider corporate value drivers, and shall realize the corporate value creation requires long-term management, not a short-term manipulation. A corporate must have a high quality top management team, and apply its management capability for the corporate to make the good decision-making and to create corporate economic profit.

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