EVA as An Alternative Management Control System: A Case Study

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Much wisdom is borne out of pain.
It strips us down to bare essentials;
It puts in perspective the things that matter;
It teaches the things that belong to the soul.
Abstract

In order to better integrate into the world economy, real estate services is one of the professional services that will be liberalized and expected to take effect by end of 2003. Equity liberalization will force many of these professional real estate services firms to evolve from partnerships or family-owned businesses to corporation-operated businesses.

Currently, most of these firms do not yet have in place an effective disclosure system or an effective management control system to attract investors. On the other hand, the concern of attracting and retaining calibre individuals are felt because the professional services are designed around skeleton of information and competencies of people.

The Local Firm selected as a case for this study is searching for an effective management control system. EVA as a value based management concept has the precondition to increase the probability that non-owner-managers will consistently create shareholders' wealth provided the proper incentives and monitoring systems are in place. As such, a Foreign Corporation was selected to learn from its experience on EVA implementation because the costs of organizational change can be very large.

The results of the interviews in the Foreign Corporation revealed that EVA is a better performance indicator as compared to conventional accounting metrics such as operation income, profit and EPS. But the analysis does not support "EVA better motivate managers to increase shareholders' wealth". However, it must be interpreted with caution because the interviewees are non-representative, limitation of financial data, various external and internal factors may have impact on the responses of interviewees. Generally, EVA implementation in the Foreign Corporation failed to buy-in at top management and it was implemented too fast as another performance metric. Recommendation for the Local Firm are presented and tried to address the gap between theory and practice in implementing EVA.
<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cover page</td>
<td>I</td>
</tr>
<tr>
<td>Acknowledgement</td>
<td>II</td>
</tr>
<tr>
<td>Abstract</td>
<td>III</td>
</tr>
<tr>
<td>Table of Content</td>
<td>IV</td>
</tr>
<tr>
<td>List of Table</td>
<td>V</td>
</tr>
<tr>
<td>List of Figure</td>
<td>VI</td>
</tr>
<tr>
<td><strong>Chapter One - The Problem</strong></td>
<td></td>
</tr>
<tr>
<td>1.1. Introduction</td>
<td>1-1</td>
</tr>
<tr>
<td>1.2. Background of The Problem</td>
<td>1-3</td>
</tr>
<tr>
<td>1.3. Statement of The Problem</td>
<td>3-5</td>
</tr>
<tr>
<td>1.4. Objectives of The Study</td>
<td>5-6</td>
</tr>
<tr>
<td>1.5. Rationale &amp; Importance of The Study</td>
<td>6-7</td>
</tr>
<tr>
<td>1.6. Methodology &amp; Limitations of Study</td>
<td>7-9</td>
</tr>
<tr>
<td>1.7. Organization of The Report</td>
<td>10</td>
</tr>
<tr>
<td><strong>Chapter Two – Literature Review</strong></td>
<td></td>
</tr>
<tr>
<td>2.1. Introduction</td>
<td>11</td>
</tr>
<tr>
<td>2.2. Economics of Organizational Architect</td>
<td>11-15</td>
</tr>
<tr>
<td>2.3. Agency Theory</td>
<td></td>
</tr>
<tr>
<td>2.3.1. Definition of Agency Cost</td>
<td>15</td>
</tr>
<tr>
<td>2.3.2. Why Agency Cost Exists?</td>
<td>15-16</td>
</tr>
<tr>
<td>2.3.3. Areas of Conflict of Interest</td>
<td>16-18</td>
</tr>
<tr>
<td>2.3.4. Solution to Minimize Agency Problem</td>
<td>18-20</td>
</tr>
</tbody>
</table>
2.3.5. Consideration in Designing Compensation Package 20-21

2.4. Succession Planning 21-22

2.5. Economic Value Added (EVA) 23

2.5.1. Background of EVA 23-25

2.5.2. Pro & Cons of EVA 25-28

2.5.3. EVA as Performance Control System 28-30

2.5.4. EVA as Incentive Compensation 30-31

2.5.4.1. Key Elements in EVA Bonus System 31-32

2.5.5. Managing EVA 32-34

**Chapter Three - EVA As A Desired Management Control System**

3.1. Characteristics of A Desired Management Control System 35-36

3.2. Phase One Brainstorming 36

3.3. Phase Two Brainstorming 36-38

3.4. Phase Three Brainstorming 38-43

3.5. EVA as the Desired Management Control System 44-45

**Chapter Four – EVA in A Foreign Corporation**

4.1. Introduction 46-47

4.2. EVA Implementation 47-49

4.3. Findings and Illustration 49-53

4.4. Analysis of Findings 53

4.4.1. EVA as A Management Control System 53-55

4.4.2. EVA as An Internal Corporate Governance 55-57

4.4.3. EVA as Motivator 57-59

4.4.4. EVA as A Common Language 59-61
4.5. Summary of Findings

Chapter Five - Conclusion & Recommendation

5.1. Conclusion

5.2. Recommendation

References

List of Table

Table 1 – Real Estate Services Firm in Malaysia
Table 2 – Framework For Gap Analysis
Table 3 – Mapping of Desired Management Control System & EVA
Table 4 – Selected Financial Data From One of The Foreign Corporation's Offices
Table 4.1 - Responses on EVA as Management Control System
Table 4.2 - Responses on EVA as Internal Corporate Governance
Table 4.3 - Responses on EVA as a Motivator
Table 4.4 - Responses on EVA as a Common Language

List of Figure

Figure 1 Approach of Study
Figure 2 Determinants of Organization Architecture
Figure 3 EVA – Driver Framework