

CHAPTER FIVE –

CONCLUSION & RECOMMENDATION

5.1. *Conclusion*

It is a fact that real estate services firms are about to transform from partnership or family-owned businesses to corporation-operated businesses when the industry liberalized its equity ownership by end of 2003. Currently most of these firms are not ready to deal with the paradigm shift of separating ownership from control. Such a management issue is further intensified by the forces of globalization, information revolution and technology advancement. It became aggravated for those firms facing succession issue. Many studies concurred that agency issue is always a management concern when ownership and control are separated (Michael C. Jensen, 1999; Michael J. Brennan, 1999; Chris Argyris, 1993; Donald Chew, 1999).

Agency cost could be minimized if an effective management control system is developed and well implemented. An effective management control system covers (1) performance evaluation system and (2) reward system that align the interests of decision-makers with those of the owners (James Brickley, Clifford Smith & Jerold Zimmerman, 1999; Joel M. Stern, G. Bennett Steward & Donald Chew, 1999; Joel M. Stern, John S. Shiely & Irwin Ross, 2001; S. David Young & Stephen F. O'Byrne, 2001). EVA is one of the many performance metrics that can be used to align the interest of shareholders and management. EVA has gained popularity due to the propagation of Stern Steward. In short, this study is conducted to test the acceptance of EVA as a viable management control for the **Local Firm**.

All the partners in the **Local Firm** agreed to the needs to develop an effective management control system for the firm to meet the challenges of equity liberalization and the changing market forces. But the senior partners in the **Local Firm** show lack of commitment and express non-urgency to deal with the issue. In spite of the lack of interest by the senior partners, the Patriarch and some of the younger partners are still interested in knowing the experience of EVA implementation in a **Foreign Corporation** to minimize the avoidable mistakes. Unfortunately, the result of the interviews conducted in the **Foreign Corporation** at Hong Kong and Singapore office suggested that EVA has failed to be an effective management control system with reference to the four (4) central issues:

- a) EVA as a management control system
- b) EVA as an internal corporate governance
- c) EVA as motivator, and
- d) EVA as common language.

These findings and results of analysis showed that EVA is not well accepted by the interviewees even though the support group understands the objectives and advantages of EVA as a performance metrics and reward system. This shows that there exist a gap between theory and practice. However, caution must be exercised in interpretation of the results due to the following limitations faced during the study. Among some of these limitations are:

- a) Only ten (10) interviewees were selected from a pool of 450 staff force of the two offices in the **Foreign Corporation** at that period.
- b) One (1) year of financial data was available from one of the offices for analysis which hardly representative. It was because the **Foreign Corporation** was under restructuring during the course of the interviews and financial information is strictly confidential.

- c) External forces such as the financial crisis, September 11 incident and fierce market competitions may have some adverse impact on the perspective and morale of the interviewees.
- d) Internal forces such as change of key positions, the recent down sizing, restructuring and consolidation have also affected the responses of the interviewees. Most of them do not wish to comment further and they had also indicated that no one would know who would be the next to go in view of the uncertainty in the organization.
- e) Internal constraint such as its existing compensation scheme and its corporate structure, which were difficult to blend in with EVA-based incentive components. Among the constraints identified during these interviews are annual contractual employment for marketing staff, very good benefits-in-kind that could not be withdrawn due to legislative reason, corporate culture and structure imported from its holding company on remuneration package. All these worked well prior to the crisis 1997 but they became too fat to carry and sustain. But the top management of the Foreign Corporation is not receptive to accept the changes, which will affect their benefits.

5.2. *Recommendation*

Theoretically, EVA like all value base management concept will increase the probability that non-owner-managers will consistently create shareholders' value when the proper incentives and monitoring systems are in place. Investors generally will be attracted to firms that have effective management control systems as it increase their confidence to park or invest their funds in these firms. It is a chain effect that these firms normally attract and retain high calibre performers. They will be motivated to increase and sustain the EVA growth when they know that what is in for them. The result of the interviews conducted in the **Foreign Corporation** and the illustration of EVA calculation as compared to EPS may concurred that EVA is a better indicator as a performance

metrics. But EVA has failed to create or achieve the behavioural change among the interviewees and the staff force at large because its incentive component has no significant motivation effect on them. Therefore, the recommendation for EVA implementation in the **Local Firm** is target to close the gap between theory and practice. Among these recommendations are:

- a) Executive management must be committed to create shareholder value. It is clear that knowing and understanding the advantages of EVA may not necessary construe as accepting EVA and committing to adopt EVA. As such, it is important and essential to establish buy-in at the board of directors and top management in order to have the attitudes and behavioural change. Because such change can only achieve if it is driven from the top.
- b) Support and approval must be obtained from the Board of Directors to make major strategic decisions for EVA programme such as
 - How to define EVA measurement centres?
 - How to calculate EVA? (What adjustment to be made? How to define cost of capital at corporate and division level? Would these changes affect the current accounting reporting system? If yes, what need to be changed and how to change? How often will EVA be calculated? Etc)
 - How does the management compensation link to EVA improvement? (Who will be covered initially, and subsequent plan to expand EVA based incentives through the organization? How to incorporate the EVA based incentives into the existing compensation structure? If bonus bank will be adopted, How does the deferred component work and for who? EVA bonuses are applicable at which level? How sensitive if EVA bonuses link to

EVA performance? If stock options or employee share options are part of the EVA bonuses, how to ensure it is comply with current legislation constraints on non-registered persons? What is the price option offer to them? When can they exercise? How to relate with non-financial metrics? Etc)

- EVA based incentives must be integrated into the **Local Firm's** mid and long term human resource strategies. Entry and exits path must be clearly defined to provide the transparency in the organization. Mechanical time-based succession table must incorporate performance-based metrics as one of its key consideration to select the credible candidates to its various key positions. Duration of individual to hold key positions must be stated with a maximum term to avoid any individual to fall victim to the influence of power, personal vanity and past applause.
- Detailed implementation plan must be developed to specify what will be done, how, who would do it and when.
- Detail training programme must be set-up to specify who will need the training, how will the training be conducted such as number of training sessions per employee, how to explain the concept and institute the value, what are the on going training plan during and after the implementation.
- A reviewing committee consists of the top management and EVA implementers must be set-up to study and diagnose the feedback and to benchmark with industry standard.

These recommendations are trying to minimize the bad experience learned from the **Foreign Corporation**. But EVA is just a mean to help the

Local Firm to address the concerns of equity liberalization and agency issues. If it is well implemented, EVA will incorporate the thinking and behavioural change to create value for the shareholders. But a firm must also have its winning strategy and an appropriate organization to meet the market challenges (Joel M. Stern, G Bennett Steward & Donald Chew, 1999; Joel M. Stern, John S Shiely & Irwin Ross, 2001; S. David Young & Stephen F. O'Byrne, 2001). EVA is not a strategy and should never be thought of as a substitute for one. James Brickley, Clifford Smith and Jerold Zimmerman (1999) commented that EVA would provide two thirds of the solution to an organization success. The other one third would depend on the winning strategies of each firm, which concerns the interaction between the business environment and its organization architecture.