Bo-Göran Ekholm & Jan Wallin

SHAREHOLDER/STAKEHOLDER VALUE MANAGEMENT, COMPANY GROWTH AND FINANCIAL PERFORMANCE: AN EXPLORATORY STUDY

2003
Shareholder/Stakeholder Value Management, Company Growth and Financial Performance: An exploratory study

Key words: Shareholder, stakeholder, economic value added, balanced scorecard, growth, performance management

© Swedish School of Economics and Business Administration, Bo-Göran Ekholm & Jan Wallin

Bo-Göran Ekholm & Jan Wallin
Department of Accounting, Helsinki / Vasa
Swedish School of Economics and Business Administration
P.O.Box 479
00101 Helsinki, Finland

Distributor:
Library
Swedish School of Economics and Business Administration
P.O.Box 479
00101 Helsinki
Finland

Phone: +358-9-431 33 376, +358-9-431 33 265
Fax: +358-9-431 33 425
E-mail: publ@hanken.fi
http://www.hanken.fi/hanken/eng/page1579.php?

SHS intressebyrå IB (Oy Casa Security Ab), Helsingfors 2003

ISBN 951-555-796-8
ISSN 0357-4598
Shareholder/stakeholder value management, company growth and financial performance:

An exploratory study

ABSTRACT

There has been considerable discussion in the literature about the relative merits of shareholder value management and stakeholder value management, but relatively little empirical research has been reported concerning the relationship between these types of management and financial performance. The present study puts forward a hypothesis that true shareholder value management also encompasses stakeholder value management. This combination of shareholder/stakeholder value management is hypothesised to be associated with superior financial performance and sales growth. Using a sample of chief financial officers' ratings of the contemporary management accounting techniques economic value added and the balanced scorecard to represent the two management types, the study found evidence in support of the hypothesis.

Key words: Shareholder, stakeholder, economic value added, balanced scorecard, growth, performance management
INTRODUCTION

It goes without saying that the main reason for developing new management accounting techniques is to provide management with tools needed for steering the company towards improved financial performance. However, it is not easy in practice to prove that financial success is the effect of a particular method. It is an interesting problem because there are wider implications in the sense that it may be possible to extend the analysis to include different management orientations regarding the interested parties for whom value is to be created. In a recent study, Cooper, Crowther, Davies & Davis (2001) classify companies into four different groups based on the type of management accounting techniques that are used to manage performance: traditional management (predominantly using traditional accounting techniques), stakeholder oriented management, shareholder oriented management (a.k.a. value based management or VBM-companies), and management based on the balanced scorecard (BSC). The main results of the Cooper et al. study seem to be that there are rather small differences between these groups in terms of accounting techniques used - what differences there are, concern more emphasis than philosophy. In terms of financial performance, Cooper et al. also found that the differences between the three categories of companies are very small. The difference that is observable, but not statistically significant, for return on capital employed (ROCE) suggests that traditional companies perform slightly better than VBM-companies and stakeholder companies. By contrast, some other empirical studies indicate positive effects of the stakeholder approach on financial performance (Preston & Sapienza, 1990; Greenley & Foxall, 1997; Berman, Wicks & Jones, 1999; Ogden & Watson, 1999). Clearly, there is a need for further investigation.
Being of an explorative nature, the present study will try to answer the following question: (Cf. Cooper et al., 2001, p. 117):

- Given certain techniques that represent different management approaches, which approach is associated with superior financial performance?

In trying to answer this question, we will take issue with the extreme versions of both the shareholder orientation and the stakeholder orientation. The extreme shareholder orientation can be characterised as focusing solely on VBM metrics, whereas the extreme stakeholder orientation stresses social performance (ethics) more than financial performance (Cf. Cooper et al., 2001, p. 22). The present study will be predicated on the argument that the creation of shareholder value based on creation of residual profit in excess of riskadjusted cost of capital (EVA) is the main objective of a firm. Favourable treatment of other stakeholders is a means to achieving this objective. Thus, we see as most profitable a type of management in which stakeholder value management coalesces with shareholder value management.

Cooper et al. (2001) list several non-traditional techniques that could represent either stakeholder management or shareholder management. Ignoring most of these, we choose to focus on two of the most discussed contemporary methods: the BSC and economic value added (EVA). The latter has sometimes been proposed as an alternative to BSC (Cf. Olve, Roy & Wetter, 1999, p. 180; Lindvall, 2001, p. 208). Joining Kaplan & Norton (2001b, p. 156) in their view that shareholder value management needs to be complemented by comprehensive BSC measurement, our main hypothesis is that such a combination, which will be referred to as
shareholder/stakeholder value management, will be associated with superior financial performance. The reasoning behind this will be enunciated later in the theoretical framework.

To be sure, neither method is free of criticism. For example, Rappaport (1998) asserts that EVA is not a good measure of shareholder value creation. As for the BSC, it has, as shown by Laitinen (1996) and Norreklit (2000), problems with some basic assumptions, chief of which is the cause-and-effect relationship assumed among the four perspectives, that is, the financial, customer, internal business-process and learning and growth perspectives (For a short review of other problems, see Malmi, 2001). Given the relevance of these criticisms, there is all the more reason to investigate (a) how useful these methods are perceived to be by practitioners and (b) what the relationship is between these perceptions and financial performance.

If shareholders are seen as a highly important stakeholder group - an observation found to be true for a majority of companies, irrespective of their classification (Cooper et al., 2001, p. 93) - and considering that stakeholder management entails balancing the interests of its stakeholders, it is natural to view the BSC as a stakeholder management model, with shareholders, creditors, employees, suppliers and customers playing major roles. A growing number of authors subscribe to this view (e.g., Davis, 1996; Atkinson, Waterhouse & Wells, 1997; Otley, 1999). Support for this view can also be found in many Scandinavian applications (at least in Sweden and Norway), typical of which is that the employee perspective is added to the four perspectives originally suggested by Kaplan & Norton (1992) (Cf. Olve et al., 1997; Ax & Höier, 1999; Ax & Bjornenak, 2000). However, noticing that such a view is becoming more and more
widespread, Kaplan & Norton take great pains to distance themselves from the proponents of 'stakeholder scorecards'. Taking the view that all stakeholders are not entitled to a position on a business unit's scorecard, Kaplan & Norton point out that one important strategic aspect is missing from the stakeholder scorecards: how the desired outcomes are to be achieved (Kaplan & Norton, 2001a, p. 96).

Is there an irreconcilable difference between these two seemingly conflicting views? It is difficult to provide a universally valid answer because balanced scorecards tend to be very individually designed. Consequently, Kaplan & Norton's criticism may be valid in some cases and less valid in other cases. At least there seems to be agreement between different schools of thought concerning one thing: 'the overarching objective of the balanced scorecard is to achieve both short-term and long-term financial success (Cooper et al., 2001, p. 25). Given that successful financial performance is the chief goal of the shareholder category, is a stakeholder approach financially detrimental to companies and their owners? Several authors have put forward compelling arguments to the effect that, if the stakeholder approach means paying attention to stakeholder interests, this approach is vital to firms' success in terms of competitive edge and ultimately to the bottom line (e.g., Freeman, 1984; Atkinson et al., 1997; Atkins, Dykes, Hagerty & Houe, 2000; Brooks, 2000; Ogden & Watson, 1999; Berman et al., 1999; D'Souza & Williams, 2000; Szwajkowski, 2000; Bowden, 2000). Unfortunately, this discussion is more often than not based on anecdotal evidence and common sense rather than generally accepted theory. Furthermore, as noted in the Introduction, relatively few empirical tests have been conducted to date.
RESEARCH OBJECTIVE

The present study aims to make a contribution to the literature by (1) streamlining and developing a theoretical framework pertaining to shareholder/stakeholder value management, and (2) conducting an empirical investigation into the possible link between this type of management and financial performance. Based on a discussion of economic and financial theory as well as modern management accounting theory, especially the value chain concept, we make an attempt to extend Shank & Govindarajan’s (1993) analysis by introducing a new concept 'value chain administrator', arguing that it is in the interest of this to pay heed to the interests of other interested parties along the value chain – in other words, that there is not necessarily a conflict of interest per se between stakeholders and shareholders. Since managing factors such as profit and growth is said to require the recognition of other stakeholders alongside shareholders, we will pay special attention to growth as an independent variable along with perceived usefulness of the BSC and EVA (cf. Cooper et al., 2001, p. 32).

THEORETICAL FRAMEWORK AND DEVELOPMENT OF HYPOTHESES

In a summary of the stakeholder theory, Donaldson & Preston (1995) present a taxonomy consisting of three classes: descriptive/empirical, instrumental and normative theories. Models describing what the corporation is as a constellation of cooperative and competitive interests are classified as descriptive/empirical theories. The instrumental approach is characterized as focusing on the possible empirical connections between the practice of stakeholder management and the financial performance of companies. This approach is 'instrumental' due to the lack of an explicit theoretical basis. The normative theories are ethically based. According to the
normative approach managerial relationships with stakeholders are based on moral commitments rather than on a desire to use stakeholders solely to maximize profits. Donaldson & Preston (1995) summarize the 'ethical feelings' in general in the following way: 'The plain truth is that the most prominent alternative to the stakeholder theory (i.e., the 'management serving the shareowners' theory) is morally untenable'.

This moral statement seems to be based on an assumption that wealth creation is a zero-sum game where somebody's profit is somebody else's loss. However, economic activity within effectively functioning, dynamic markets is a plus-sum game. New welfare (wealth) is created through the improvements in ways of functioning (internal efficiency) and/or through creating new forms of utility (external effectiveness) that entrepreneurs invent in their endeavours to receive economic profits (residual incomes), i.e., profits exceeding full cost compensation and compensation for time and risk. The rivalry (competition) between separate entrepreneurs on the market will sooner or later eliminate this type of market disequilibrium and the consumer will become the profit taker in the form of more valuable products and services at relatively lower costs. The more intensive this process is, the faster is the process of upcoming and disappearing states of disequilibrium and the faster is both the welfare growth in the society (See e.g. Schoultz, 1980) and the growth of the competing companies (c.f. Buzzelli & Gale, 1987, pp 54–58). It is against this background that Milton Friedman's title of his famous article 'The Social Responsibility is to Increase its Profits' shall be seen (Friedman, 1970).

The residual income-based valuation model by Ohlson (1995) represents an operationalization of this reasoning. According to this model, the value of a company
is equal to the book value of equity (i.e., approximative market value of its net assets) plus the present value of expected residual incomes (EVA), i.e. 'market value added'. From a value management perspective it is of course the latter part of this shareholder value metric – and the prerequisites of it - that is the interesting part. The market value added part corresponds to the well-known net present value concept in capital budgeting and means, in fact, the same thing as an ex ante situation in which a company is potentially able to exchange money including the costs of the capital - via products or services - with the market at a better rate than 1:1. This state of inefficiency (imbalance) in the market means that the exchange value of a certain product or service exceeds the intrinsic value of it. – This is also the way in which Fama (1970) originally defined the capital market efficiency concept and the same definition is of course valid for all types of markets if we believe in the framework of neoclassical economic theory.

The prerequisites of establishing and maintaining such exploitable states of imbalances is dealt with in the strategy literature. For example Porter (1996, 2001) is focusing on two main categories of activities creating imbalances: operational effectiveness and strategic positioning. By operational effectiveness he means doing the same thing as the competitors do but doing them more efficiently. By strategic positioning he means doing things differently from competitors, in a way that delivers a unique type of value to customers. In both of these dimensions an expression of superiority – with regard to the competitors / market in general – is included. This superiority is a prerequisite of disequilibrium and, thus, of the creation of (market) value (added).
However, a common feature of all other participants in a certain value chain – employees as well as customers, suppliers and other companies engaged in a specific value chain - is that they all can be supposed to have the same hedonistic attitude as the entrepreneur: they want to get relatively – with regard to other potential engagements - more utility out of the process than what they put into it (disutility). Donaldson & Preston (1995) indirectly recognize this inclination in their definition of stakeholders in utility – disutility terms: 'Stakeholders are identified through the actual or potential harms and benefits that they experience or anticipate experiencing as a result of the firm's actions or inactions'.

Paradoxically, the prerequisite of repeated exploitation of states of imbalance in the markets is that the value chain administrator (the entrepreneur / the shareholders) will offer its stakeholders (customers, employees, suppliers) better exchange terms than what the competitors can do on average. Loyalty can be expected only from stakeholders that find themselves relatively in a positive state of imbalance. If shareholders try to appropriate to themselves all the fruits – or more – from a created state of imbalance in the markets, the stakeholder will find themselves at best in a state of equilibrium, where it does not matter with whom they do business as they get the same terms from many potential principals, the result being that their loyalty may be faltering. If the stakeholders find themselves in a state of negative imbalance, they will change principal as soon as possible. Or as Atkinson & al., (1997) put it: 'The consequence of this (their) stakeholder view is that companies must meet their stakeholders´ requirements to ensure their continued participation'. Thus, in order to maximize the present value of the expected residual incomes, it seems to be in the
interest of the administrator of the value chain to distribute, on a continuous basis, some part of the residual income to the stakeholders.

In this connection, Atkinson & al., (1997) use the terms ‘primary’ and ‘secondary’ objectives to cover the interests of shareholders and stakeholders, respectively. The relationship between primary and secondary objectives is that ‘...customers, employees, suppliers, and the community are important not in their own right, but because they help the company achieve its primary objectives by giving it what it needs to pursue the strategy designed to achieve its primary objectives'. However, in our view there is no need to look at the welfare of the stakeholders as any kind of (secondary) objective; it is a means to an end (maximization of shareholder wealth) and not an end in itself. The (primary) objective of maximization of the value of the company presupposes development of exploitable market imbalances, which is the main duty for the administrator of the value chain. This is a basic requirement for offering stakeholders better conditions than competitors do. Otherwise the company will distribute shareholders’ equity to stakeholders.

It is in this context that Kaplan & Norton’s (1992) balanced scorecard (BSC) enters the picture. The scorecard is based on the idea that the (main) administrator of the value chain places sensors in the whole value chain - within his own segment as well as within the territories of the stakeholders. Symptomatic is that in most of the published descriptions of BSCs, the measurement of customer as well as employee satisfaction seems to occupy as central a position in the customer and learning and growth perspectives, respectively, as the measurement of return on capital plays in the financial perspective (See e.g. Malmi, 2001). The firm linkage of measurement within the
balanced scorecard to strategy (Kaplan & Norton, 1993) and the logical cause-and-effect linkages with the markets, employees and other stakeholders that describe the hypotheses of the strategy (Kaplan & Norton, 1996). \textquote{the strategy map} (Kaplan & Norton, 2001a), underline the role of the balanced scorecard as an instrument for supervision of the degree of satisfaction among all stakeholders engaged in the value creation process.

However, according to the shareholder value metric, the ultimate target is maximization of the present value of expected residual incomes, i.e., maximization of shareholder value. Kaplan & Norton (2001b, p. 156) notes that this shareholder value management addresses two defects in traditional financial performance management, i.e., the overinvestment and the underinvestment problem that occur when only traditional performance measures like net income and return-on-investment are used. In contrast to this traditional approach they posit that \textquote{managers operating only with shareholder value metrics, and without the more comprehensive BSC measurement framework, often take a low-risk and short-term path – reduce costs and dispose of underutilized assets – to improve their financial improvement}. As observed by Kaplan & Norton (2001b, p. 156), the BSC measurement framework adds revenue growth to this shareholder value management perspective by \textquote{defining the drivers of revenue growth – explicit objectives and measures for target customers, the differentiating customer value proposition, the internal business processes for innovation and enhanced customer relationships, and the needed infrastructure investments in people, systems, and organizational alignment}.

The term \textquote{growth} is often used vaguely, sometimes referring to growth in sales or revenues, and sometimes to growth in profits. Principally the exploitation of market
imbalances can occur as a mix between sales growth and profit growth depending on the pricing policy of the company. The more value added that is transferred to the customers through low prices vis-à-vis offered utility added, the faster is sales growth and the lower is profit growth, and vice versa. An optimal combination of sales and profit growth will result in maximization of the expected value of future residual incomes, i.e., shareholder value. This form of desirable "profitable growth" can be seen as an expression of strategy articulation. While Kaplan & Norton (2001b) also seem to put traditional management, shareholder value management and BSC-based management on a continuum reflecting the management's degree of strategy articulation, a positive relationship between sales growth (as a part of profitable growth) and accentuated use of these performance management methods could be expected.

Kaplan & Norton (2001b) stress that even if these performance management methods are compatible, they can also be implemented independently from each other. One way to illustrate this is to depict shareholder value management and stakeholder value management and a combination of these as separate vectors in a graph with the traditional approach as the base point (Figure 1).
Figure 1: A vector view of the performance management systems selected for study

Based on these expectations, and using residual income in the form of the widely known EVA to represent the shareholder value vector and the BSC to represent the stakeholder value vector, the following operationalization of Figure 1 will be used (Table 1):

Table 1: Classification of types of performance management by perceived usefulness of EVA and the BSC

<table>
<thead>
<tr>
<th>EVA</th>
<th>High</th>
<th>Shareholder</th>
<th>Shareholder/stakeholder</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td></td>
<td>Traditional</td>
<td>Stakeholder</td>
</tr>
<tr>
<td></td>
<td>Low</td>
<td></td>
<td>BSC</td>
</tr>
</tbody>
</table>
Introduction and what Kaplan & Norton (2001b) mean by BSC utilization. The group characterized by high appreciation of EVA and low appreciation of BSC may represent a pure shareholder orientation or VBM, whereas the remaining group consists of companies adhering predominantly to traditional accounting techniques for performance management.

Our proposition is that while competitive advantage, resulting in (sales) growth, may be developed in companies independently from the types of performance management systems in use, the ability to take advantage of the created states of imbalances, in the form of profitable growth, may vary depending on the actual performance management system in use. Combining the two levels of sales growth with the four types of management shown in Table 1, results in eight groups of companies. The investigation will be focused on shareholder/stakeholder value management, with the three other management types as points of comparison. In particular, the following hypotheses will be tested:

H1 Shareholder/stakeholder value management is positively associated with financial performance.

H2 Shareholder/stakeholder value management in combination with high sales growth is associated with superior financial performance.

RESEARCH METHOD

Independent variables

We chose to define all variables in accordance with the so-called perceptions-based approach instead of using factual data (cf., e.g., Greenley & Foxall, 1997, p. 264 for a discussion of this approach). The independent variables were defined as respondents' perceptions of the usefulness of EVA and the BSC and the respondents' perceptions of
the success of their companies in terms of sales growth. The values of these variables were obtained in the form of ratings on 7-point Likert scales, with point 7 anchored as 'extremely useful' or 'extremely successful', respectively. Since we are interested in analysing differences in financial performance between different groups of companies formed by different combinations of the three independent variables, there is a problem with using continuous independent variables - for example, the effects of high and low levels, respectively, of two variables would contribute to the effect of the same interaction as low and high levels, respectively, of this pair of variables. Here we want to isolate the effects of these and other similar combinations; in other words, we want to study the effects of individual combinations of variable values such as high-high versus high-low, etc. One way to facilitate such a study is to transform the independent variables into discrete variables with a limited number of levels. For the purposes of this study, we decided to transform the original ratings were transformed into binary variables; that is, discrete variables with two levels each. These were obtained by using the medians of the respondents' ratings of the original independent variables as cut-points. This procedure can result in some loss of information, but it may still be useful to start the analysis in this simple way - especially considering the exploratory nature of the study.

The first two transformed independent variables will be referred to as BSC and EVA, respectively. The median for the usefulness ratings was equal to 3 for both the BSC and EVA. Since the median is rather low, we defined the line of demarcation between low and high ratings as below or equal to 3 and above 3, respectively. Thus, four groups of EVA-BSC combinations were obtained.
The third independent variable, GROWTH, was formed analogously. First, continuous data were gathered and then converted into the values of a binary variable. Wanting to know the company's relative growth in relation to other companies in the same industry, we asked the respondents to rate their company's sales growth in relation to the industry mean on a 7-point Likert scale, with point 7 anchored as the highest growth level. In this case the median was equal to 5. Since this can be considered to be a high number, ratings of 5 were included in the high-sales growth group. In other words, the line of demarcation between low and high sales growth was below 5 and above or equal to 5, respectively.

**Dependent variable**

Perceived profitability measured by return on investment (ROI) was used as dependent variable. The scores were obtained by asking respondents to rate how well their company has fared during the past year in terms of return on investment (ROI) in relation to the industry average. A 7-point scale was used, with 7 corresponding to 'considerably above average'. The respondents were also asked to rate the importance of the selected financial measure on a 7-point scale, with 7 corresponding to 'extremely important'. The success ratings and importance ratings were then merged together by multiplying the ratings and dividing the result of the multiplication by a factor of seven to obtain the values of the dependent variables.

**Data Collection**

Data were collected using a mail survey. In order to get a reasonably large absolute number of responses from persons experienced in the use of EVA and the BSC, questionnaires were sent to the CFOs of the 500 largest limited companies in Sweden.
and Finland, respectively. A total number of 258 questionnaires were returned (response rate = 25.8%). However, the number of responses to individual items varies, which will be evident from the subsequent presentation of the results of the study.

**EMPIRICAL RESULTS**

**Descriptive statistics**

Before testing the hypotheses, it may be of interest to get a picture of the respondents' attitudes towards EVA and the BSC. We therefore begin by presenting a table showing the extent to which EVA and the BSC, respectively, are considered to be useful by the respondents. The data shown in Table 2 are computed based on responses (marked on a 7-point scale, with 7 denoting 'extremely useful') to a question about how useful the respondents consider EVA and the BSC to be. The frequencies for points 1, 2, and 3 on the scales are not shown Table 2.

Table 2: Cumulative frequencies of high-point ratings of the usefulness of EVA and the BSC with means of the whole distribution (n = number of respondents)

<table>
<thead>
<tr>
<th></th>
<th>High points on the usefulness scale</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>EVA</td>
<td>39.2%</td>
<td>25.6%</td>
</tr>
<tr>
<td></td>
<td>(n = 242)</td>
<td></td>
</tr>
<tr>
<td>BSC</td>
<td>48.4%</td>
<td>29.0%</td>
</tr>
<tr>
<td></td>
<td>(n = 252)</td>
<td></td>
</tr>
</tbody>
</table>

As can be seen, slightly less than one third of the respondents find the BSC more useful than average - indicated by circling a point higher than the mid-point 4 on the scale. If the mid-point is included, the cumulative frequency rises to 48.4%. The corresponding frequencies for EVA are 25.6% and 39.2%. It is noteworthy that the mean usefulness ratings are rather low in both cases.
Table 3 provides a breakdown of the mean ROI ratings by variable combination. Standard errors, 95% confidence intervals around the means, and number of responses by variable combination are also shown.

Table 3: Means and (standard errors) of ROI ratings, 95% confidence intervals, and number of responses by variable combination

<table>
<thead>
<tr>
<th>EVA</th>
<th>BSC</th>
<th>GROWTH</th>
<th>Mean</th>
<th>Std. Error</th>
<th>95% Confidence Interval</th>
<th>Lower bound</th>
<th>Upper bound</th>
</tr>
</thead>
<tbody>
<tr>
<td>low</td>
<td>low</td>
<td>low</td>
<td>2.800</td>
<td>0.218</td>
<td>2.370 - 3.230</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>high</td>
<td>3.968</td>
<td>0.189</td>
<td>3.594 - 4.341</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>high</td>
<td>low</td>
<td>3.266</td>
<td>0.256</td>
<td>2.761 - 3.771</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>high</td>
<td>3.774</td>
<td>0.282</td>
<td>3.219 - 4.329</td>
<td></td>
<td></td>
</tr>
<tr>
<td>high</td>
<td>low</td>
<td>low</td>
<td>3.847</td>
<td>0.369</td>
<td>3.121 - 4.573</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>high</td>
<td>3.654</td>
<td>0.316</td>
<td>3.031 - 4.278</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>high</td>
<td>low</td>
<td>3.514</td>
<td>0.356</td>
<td>2.813 - 4.216</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>high</td>
<td>4.800</td>
<td>0.206</td>
<td>4.395 - 5.205</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

As is evident from Table 3, the variable combination EVA-high&BSC-high&GROWTH-high shows the highest mean ROI rating (4.800), indicating support for hypothesis 2. However, there is a certain overlap between the confidence levels of this variable combination and the variable combination EVA-low&BSC-high&GROWTH-low, which suggests that the mean difference between the two groups of respondents that accentuated these variable combinations is not significant. Caution must be observed considering the fact that the latter variable combination pertains to a very small group of respondents with a large range of responses, as indicated by the large standard error.

A graph of all variables together with the management type labels gives an indication that hypothesis 1 is not supported (Figure 2).
Figure 2: Mean ROI ratings by management type

Visual examination of Figure 2 reveals that hypothesis H1 must be rejected outright because shareholder/stakeholder management (EVA-high&BSC-high) does not show the highest mean ROI rating for both levels of sales growth. On the other hand, the mean is second highest in absolute terms and very close to the highest mean for low-sales growth companies, suggesting weak support for the expectation that shareholder/stakeholder management is positively associated with financial performance.
As for hypothesis H2, Figure 2 suggests that there is interaction between shareholder/stakeholder management and high sales growth. This will be tested through an analysis of variance (ANOVA). Apart from observations pertinent to the hypotheses, it can also be seen that traditionally managed high-sales growth companies do not perform worse than stakeholder and shareholder companies. In addition, it can be observed that traditional management in combination with high sales growth seems to be associated with considerably better financial performance than traditional management in combination with low sales growth.

A full-factorial ANOVA was carried out in order to test hypothesis 2. The results are displayed in Table 4. Even though an ANOVA is quite robust, it is necessary to check whether the data meet the assumptions underlying the F-tests: normally distributed data and equal group variances. In this case tests indicated that these assumptions are not perfectly met, but visual examination of normal probability plots and boxplots showing the spreads across the cells revealed that the violations of the assumption need not cause much concern. Logarithmic and square-root transformations of the dependent variable did not change the situation.
Table 4: Results of a full-factorial analysis of variance

<table>
<thead>
<tr>
<th>Source</th>
<th>Type III sum of squares</th>
<th>df</th>
<th>Mean square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
<td>3482.018a</td>
<td>8</td>
<td>435.252</td>
<td>228.718</td>
<td>0.000</td>
</tr>
<tr>
<td>EVA</td>
<td>12.108</td>
<td>1</td>
<td>12.108</td>
<td>6.363</td>
<td>0.012**</td>
</tr>
<tr>
<td>BSC</td>
<td>3.538</td>
<td>1</td>
<td>3.538</td>
<td>1.859</td>
<td>0.174</td>
</tr>
<tr>
<td>GROWTH</td>
<td>23.017</td>
<td>1</td>
<td>23.017</td>
<td>12.095</td>
<td>0.001***</td>
</tr>
<tr>
<td>EVA*BSC</td>
<td>0.879</td>
<td>1</td>
<td>0.879</td>
<td>0.462</td>
<td>0.497</td>
</tr>
<tr>
<td>EVA*GROWTH</td>
<td>1.019</td>
<td>1</td>
<td>1.019</td>
<td>0.536</td>
<td>0.465</td>
</tr>
<tr>
<td>BSC*GROWTH</td>
<td>2.013</td>
<td>1</td>
<td>2.013</td>
<td>1.058</td>
<td>0.305</td>
</tr>
<tr>
<td>EVA<em>BSC</em>GROWTH</td>
<td>13.733</td>
<td>1</td>
<td>13.733</td>
<td>7.216</td>
<td>0.008***</td>
</tr>
<tr>
<td>Error</td>
<td>439.594</td>
<td>231</td>
<td>1.903</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>3921.612</td>
<td>239</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. R squared = 0.888 (Adjusted R squared = 0.884)
***, ** signify significance at the 0.01 and 0.05 levels, respectively.

Table 4 suggests that there are two significant main effects (EVA and GROWTH) and one significant interaction (EVA*BSC*GROWTH). The occurrence of the significant interaction makes it necessary to view the observed main effects with caution. At any rate, hypothesis H2 seems to be supported by the ANOVA results displayed in Table 4: shareholder/stakeholder management in combination with high-sales growth companies seems to be associated with superior financial performance.

Further tests outside the scope of the hypotheses confirm the visual observation made earlier from Figure 2 that traditional management in combination with high sales growth is associated with higher financial performance than traditional management in combination with low sales growth (t = 4.394; sig. = 0.000). Obviously, traditionally managed companies benefit more from the dynamism manifested in higher sales growth than from the languishing existence low sales growth implies.
AVENUES FOR FUTURE RESEARCH

The study is limited in a number of respects, each providing a possible avenue for future research. Firstly, with only three explanatory variables, the scope is very limited. There may exist several intervening variables, the effects of which have not been controlled for. Secondly, the four management types were classified on the basis of just two management accounting techniques. Obviously, this makes the relationship between techniques and types of management somewhat tenuous. In future research, the use composite variables, operationally defined as summated ratio scales, could be considered. Thirdly, the original continuous data for the independent variables were converted into binary data. This may have resulted in loss of information. Fourthly, despite undisputable advantages associated with using perceptions as data instead of, for example, raw balance sheet data, one cannot escape the suspicion that the data may be biased to some extent. Fifthly, the response rate was on the low side (25.8%). On the other hand, 258 is quite a respectable number of companies in absolute terms.

Apart from the above list of obvious limitations, future research could also pay more attention to the relationship between the selected independent variables and the dependent variable. When commenting on the ANOVA results above, we used the term 'effect'. It is important to note that this is accepted usage in an ANOVA context, but it does not necessarily mean that there is a causal relationship. As observed, there are undoubtedly some positive associations, but we would not venture to draw the conclusion that certain methods are the cause of high financial performance. Skilful management is the main driver of successful development and implementation of strategies that create both stakeholder and shareholder value, which will result in profitable growth. However, our results suggest that managing for value is not a one-
size-fits-all model. Skilful management seems to use modern monitoring techniques that pay attention to different stakeholder needs, as well as combinations of more traditional techniques that are more oriented towards the management of internal processes. Applying sociobiological theory to companies, Cooper et al. (2001, p. 119) argue that successful companies 'will have adaptation and change as a continual part of their existence and will be prepared to adapt in any way that enhances their chance of survival.' Based on the evidence provided by the present study, we are inclined to join them in this view, but how this adaptation is accomplished under different kinds of conditions is of course a research issue that needs much further investigation.

**SUMMARY AND IMPLICATIONS**

The findings of the study suggest that high sales growth is positively associated with financial performance not only in companies characterised by combined shareholder/stakeholder management but also in companies in which the contemporary management accounting techniques EVA and the BSC are not highly appreciated (traditionally managed companies). What is more, the evidence suggests that shareholder/stakeholder management in combination with high sales growth is associated with superior financial performance and thus with high profitable growth. By contrast, traditionally managed companies seem to lag behind in terms of financial performance if sales growth is low.

The main implication of these results is that sales growth seems to be closely associated with profitability, and that managing profitable sales growth requires both successful usage of modern management accounting techniques and attention to different stakeholder needs. However, as we have pointed out, profitable sales growth
is only an expression of the exploitation process following the creation of new values for the market. This accentuates the need to think expansively about the term “value” and the possibilities that the new information technology offers with regard to the continuous measurement and distribution of value among the stakeholders in order to secure (the present value of) the long-term residual income of a company, i.e., to maximize its own value. Recent development in the form of the rapid development of information technology and the outsourcing of functions that traditionally have been an integral part of firms seems to accentuate the role of the company as the principal value chain administrator. Our research points in the direction that shareholder value awareness in combination with the balanced scorecard approach is an effective instrument for that task.
REFERENCES


Bowden, P. Delivering organizational excellence by employee values management. Total Quality Management, 11, 4-6, S636-S640.


Swedish School of Economics and Business Administration. Working Papers.

2002

466. Sääksjärvi, Maria: Consumer Adoption of Technological Innovations
470. Pasternack, Daniel: Factors Driving Stock Option Grants - Empirical Evidence from Finland
471. Rosenberg, Matts: Does Uncertainty Affect Investment and Labor Demand?
473. Felixson, Karl: The Expiration Day Effect of Index Options and Index Futures on the Underlying Shares.
475. Liljebom, Eva & Pasternack, Daniel: Share Repurchases, Dividends, and Executive Options; Empirical Evidence from Finland.
480. Aba Al-Khail, Mohammed & Berglund, Tom: The Impact of the EMU on International Portfolio Investments.
481. Aba Al-Khail, Mohammed: International Portfolio Investments and the Informational Value of Trade.
482. Aba Al-Khail, Mohammed: The Impact of FDI on International Portfolio Investments.
483. Snellman, Kenneth: Incentives and Substitute Personal Activities.
484. Kovács, Gyöngyi: Digital Asset Management in Marketing Communication Logistics.
486. Ben Sita, Bernard: Test of the Clustering Hypothesis in the Helsinki Exchanges.

2003

490. Li, Hongzhu: Higher Moments and Asset Pricing.
491. Li, Hongzhu: ARCH Effects and the Conditioning Information Variables.
492. Arranz-Aperte, Laura & Heshmati, Almas: Determinants of Profit Sharing in the Finnish Corporate Sector.
493. Ekholm, Bo-Göran & Wallin, Jan: Shareholder/Stakeholder Value Management, Company Growth and Financial Performance: An exploratory study