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Control Rights, Economic Value Added and Value-based Corporate Governance: Evidence from Global Automobile Industry

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Stuttgart, 28.04.2011

Junliang Bao

To My Parents
Bao, Changmiao and Yao, Meizhen

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Abstract

This paper takes the incomplete contract and property rights based approach to discuss control rights, the Economic Value Added approach and value-based corporate governance. The aim of the paper is to explore the approaches and strategies in order to effectively control and measure value added activities at various management levels. A case study of several corporate governance systems and Economic Value Added performances of the Original Equipment Manufacturers (OEM) in Automobile industry will be conducted to provide insight into this topic.

The main conclusions derived are as follows:

- (1) The division of knowledge assets leads to the separation of ownership and control, which induces the agency problem;
- (2) Corporate governance is a complex set of constraints that shape the ex post bargaining over the residual claims and residual risk;
- (3) Economic Value Added (EVA) can be used to control and measure value creation activities at project, department and firm levels;
- (4) Various corporate governance systems have different roots in its unique economic, cultural, legal and political conditions and its own evolution history; it is hard to conclude which one is the best;
- (5) The case study shows that many companies are using value based corporate governance systems;
- (6) In sense of opportunity cost, Economic Value Added should be sufficient to cover both operating and capital costs.

This approach poses new challenge for managers to set higher value added targets than regular accounting ones when they make decisions on investment and other value added activities.

Key Words:

Agency Problem; Control rights; Shareholder Value; Economic Value Added; Value-based Corporate Governance

Zusammenfassung

Meine Masterarbeit befasst sich mit den Merkmalen des unvollständigen Vertrags und führt über Eigentumsrechte zur Diskussion über Kontrollrechte und wertorientierte Unternehmensführung. Das Ziel der Arbeit ist es, die Ansätze und Strategien zu erkunden, die die Wertschöpfungsaktivitäten auf verschiedenen Ebenen - angefangen bei der Projektebene, über Abteilungsebene bis hin zur Unternehmensebene - effektiv kontrollieren und messen. Eine Fallstudie über diverse Corporate-Governance-Systeme und Leistungen der Economic Value Added (EVA) am Beispiel von Automobileherstellern dient als abschließender Praxisbezug.

Die wichtigsten Schlussfolgerungen sind:

- (1) die Aufteilung der wissensintensiven Vermögenswerten führt zu der Trennung von Eigentum und Kontrolle, verursacht durch das Agenturproblem;
- (2) Unternehmensführung ist eine komplexer Umfang von Einschränkungen, die durch Ex-post-Verhandlungen restliche Ansprüche sowie das allgemeine Restrisiko bestimmen;
- (3) Economic Value Added (EVA) kann zur Steuerung und Messung der Wertschöpfungsaktivitäten auf Projekt-, Abteilungs- und Unternehmensebene herangezogen werden;
- (4) Ein Vergleich der verschiedenen Corporate-Governance-Systeme ist aufgrund ihrer unterschiedlichen Entwicklung sehr schwierig und muss stets im jeweiligen wirtschaftlichen, kulturellen, rechtlichen und politischen Kontext betrachtet werden.
- (5) die Fallstudie zeigt, dass viele Unternehmen wertorientierte Corporate-Governance-Systeme nutzen;
- (6) In Bezug auf Opportunitätskosten sollte die Economic Value Added (EVA) ausreichen, um sowohl alle Betriebskosten als auch alle Kapitalkosten zu decken.

Dieser Ansatz stellt eine neue Herausforderung für Manager im Bereich der Entscheidungsfindung über Investitionen und andere Wertschöpfungsaktivitäten dar. Es gilt, höhere Ziele für die Wertschöpfung anzusetzen als die, die die normale Rechnungslegungssysteme anbieten.

Schlagwörter:

Agenturproblem; Kontrollrechte; Aktionärswert; Geschäftswertbeitrag; wertorientierte Corporate Governance

Chapter 1 Introduction¹

The Financial Crisis of 2007–2010 sparks recently a new wave of discussions over the corporate governance systems and value-based management in the academic areas. The meltdown in the Wall Street resulted in the world economy's descent into the most severe financial crisis after World War II. Historically the discussion over corporate governance issues began with Berle and Means's 1932 groundbreaking book *"The Modern Corporation and Private Property"*, where they pointed out that the real challenge of corporate governance is the separation of ownership and control:

"(Corporation) involves the integration of a wide diversity of economic interests – those of the "owners" who supply capital, those of the workers who "create", those of the consumers who give value to the products of enterprise, and above all those of the control who wield power...Such a great concentration of power and such a diversity of interest raise the long-fight issue of power and its regulation – of interest and its protection..."².

Actually Adam Smith had already noticed the point:

"The directors...being the managers rather of other people's money than their own...cannot well be expected, that they should watch over it with the same anxious vigilance with which the partners in a private copartner frequently watch over their own..."³.

However, only after the appearance of stock markets and modern public enterprises, especially after the 1929 Great Depression, did academics begin to discuss more intensively over the so-called "agency problem". After Berle and Means, many economists have also made significant contributions to this academic area, for example Coase (1937), Jensen and Meckling (1976),

¹ I am indebted to Mr. Prof. Josef Windsperger, University of Vienna, for helpful comments and instructions and I am also grateful to Mr. Kai Philip, Oxford Brookes University, and Mr. Chris North, University of Vienna and University of Exeter, for doing proof reading, though of course the responsibility for the paper is solely mine.

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² Berle & Means, 1968 (1932), P310.

³ Smith, 1776, P700.

Fama and Jensen (1983a,b), Jensen and Murphy (1990), Hart (1995), Schleifer and Vishny (1997), Zingales (1998), Tirole (2006) etc.

Adam Smith's "division of labor" is actually the "division of knowledge assets", as Hayak and Austrian School pointed out. Buchanan (1975) ⁴argued that economics is more a "science of contract" than a "science of choice". In this sense, the maximiser should be replaced by the arbitrator, so that any conflicting claims can be resolved through compromise⁵; the Edgeworth-Bowly Box should replace Marshall's Supply-Demand Model; Game theory should be the "basic mathematics"⁶; "solutions of n-person games" should replace the nth order conditions for maxima and minima⁷; "gains-from-trade" should replace "maximization"⁸. These are generally the economic basis of this paper.

The theme of this paper is to discuss the control rights and value-based corporate governance. The main research problems are as follows: Firstly, whose interests should be taken into consideration when setting up a corporate governance system: shareholder value or stakeholder value? Secondly, why does a firm need a corporate governance system? Why value based corporate governance system? Why Economic Value Added would be chosen as the leading instrument for the value based corporate governance? Thirdly, does the value based management work in the real commercial world? The aim of the paper is to explore the approaches and strategies which effectively control and measure value added activities at from project level, department level to company level. Economic Value Added is taken as the main instrument to conduct and assess a value based corporate governance. A case study of different corporate governance systems and Economic Value Added performances of the Original Equipment Manufacturers (OEMs) in Automobile industry will be conducted.

This paper proceeds as follows:

Chapter 2 explains the theoretical basis of corporate governance. The division of knowledge assets leads to the separation of ownership and control, which induces agency problems. Firm is a nexus of complete or incomplete contracts used to arrange the distribution of the residual control rights, the residual claims and accordingly the residual risk among all the factor holders that are involved in the production process. The shareholder value approach, the stakeholder approach and shared value approach would be discussed and this paper mainly based on the shareholder value approach.

⁴ Buchanan (1975, May), P225-230.

⁵ Buchanan (1975, May), P225-230.

⁶ Buchanan (1975, May), P225-230.

⁷ Buchanan (1975, May), P225-230.

⁸ Buchanan (1975, May), P225-230.

Chapter 3 deals with the issue of control rights and corporate governance. As the basis of control rights, ownership structure and ownership concentration will be discussed. Based on the Fixed-Investment Model and the Aghion-Bolton Model, the necessary to introduce a corporate governance system would also be discussed. The formal control and real control Entrepreneurial would then be discussed.

Chapter 4 explores the main topic of the paper, the value-based corporate governance and the main instrument of Economic Value Added. Generally, corporate governance is a mechanism for ad-hoc decision making to allocate residual control rights and residual claims. The corporate governance systems around the world, typically the Anglo-American Unitary Board Model, the Continental European Two-tier Model and the Japanese Business Network Model will be introduced and compared. The main instrument Economic Value Added (EVA) will then be introduced and explored in detail.

Chapter 5 is the case study of value-based management in the global automobile industry. Daimler AG, Volkswagen AG and BMW Group from Germany, General Motors (GM) and Ford Motors from the United States, Toyota Motors and Honda Motors from Japan would be chosen as examples for the case study, whereby their shareholder structures, corporate governance systems and Economic Value Added results from 2001 to 2010 would be presented and analysed.

Chapter 6 is conclusion and discussion.

Chapter 2 Knowledge assets, Agency Problem and Shareholder Value

2.1 Knowledge Assets and Agency Problem

This section gives a brief background of agency problem. As Windsperger and Yurdakul (2007) summarized, due to information asymmetry, tangible (contractible) and intangible (non-contractible) knowledge assets are identified and split up. Tangible knowledge assets “can be codified, and are easily transferred by contract”⁹, hence “non-residual decision rights (as decision actions) are explicitly stipulated in contracts”¹⁰. On the contrary, intangible knowledge assets “cannot be codified due to their tacit characteristics...(and)...residual decision rights must be allocated because they cannot be easily communicated and specified in contracts due to too high transaction costs”¹¹.

Generally speaking, the agency problem arises because of the separation of ownership and control, which is resulted from the division of intangible (non-contractible) knowledge assets. The principal and the agent try to make contracts to share the residual risk and residual income, which induces high transaction costs such as “the costs of structuring, monitoring, and bonding a set of contracts among agents with conflicting interests”¹².

Moral hazard, adverse selection, hidden characteristics, hidden information, as well as the hidden action and hold-up problem, are among the typical agency problems, of which moral hazard is the most popular one in corporate governance. Tirole (2006)¹³ has summarized it as follows:

- (1) Insufficient efforts. It could happen when managers spend working hours in doing unimportant tasks and when they react “unpleasantly or inconveniently to cut costs by switching to a less costly supplier, by

⁹ Windsperger & Yurdakul, 2007, P73-74

¹⁰ Windsperger & Yurdakul, 2007, P73-74

¹¹ Windsperger & Yurdakul, 2007, P73-74

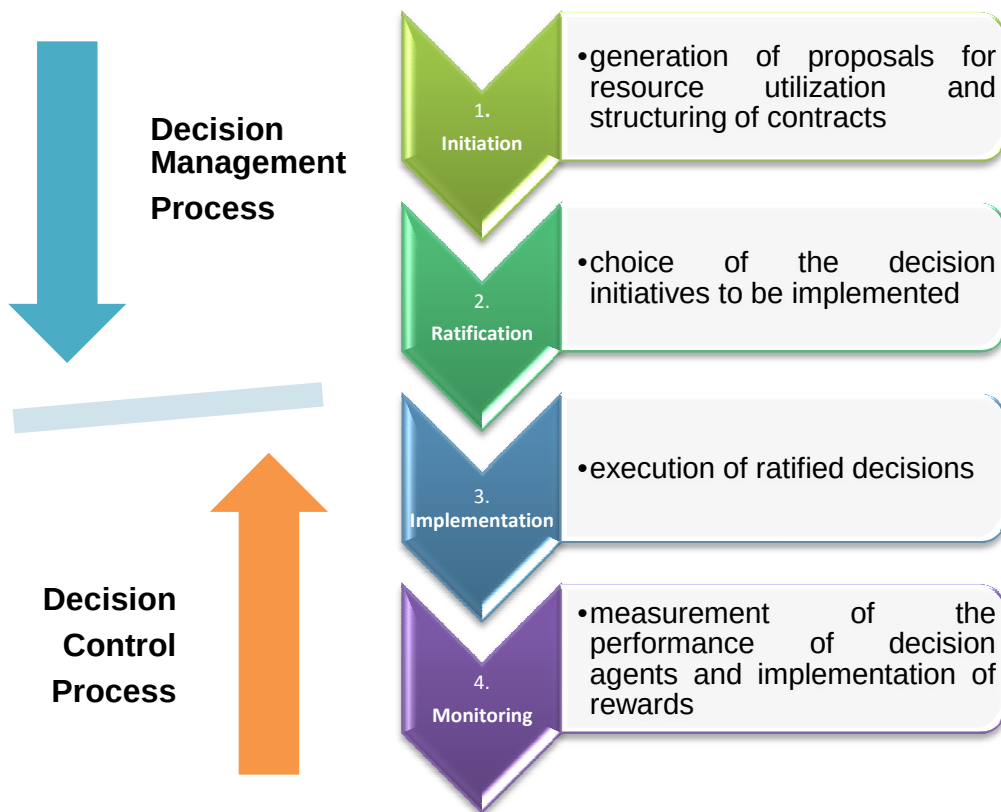
¹² Schleifer & W.Vishny, 1997, P740-742

¹³ Tirole, 2006, P16

reallocating the workforce...by taking a tougher stance in wage negotiations”¹⁴.

- (2) Extravagant investment. It could happen when managers pursue pet projects or build clans.
- (3) Entrenchment strategies. It could happen when managers prefer to either excessive or insufficient risk taking.
- (4) Self-dealing such as thievery, information leakage or corruption. In some cases managers may “pick their successor amongst their friends or at least like-minded individuals who will not criticize or cast a shadow on their past management”¹⁵, “select a costly supplier on friendship or kinship grounds”¹⁶, or “finance political parties of their liking”¹⁷.

Figure 2.1 the Management Decision Process



Source: illustrated by the author with the ideas from (Fama & C.Jensen, 1983, P303-304)

As a response to the agency problem, generally the management decision process could be divided into four steps, as figure 2.1 illustrated: (1) Initiation; (2) Ratification; (3) Implementation; (4) Monitoring¹⁸. The first two steps are normally done by the same agents and hence can be generally termed as the

¹⁴ Tirole, 2006, P16

¹⁵ Tirole, 2006, P17

¹⁶ Tirole, 2006, P17

¹⁷ Tirole, 2006, P17

¹⁸ Fama and Jensen (1983), P301-25

“Decision Management Process”; while the rest two steps to form the so-called “Decision Control Process”, as figure 2.1 illustrates.

2.2 Firm Theory

Before discussing control system and governance structure of a firm, it makes sense to first shed light on the firm itself. In neoclassical economics, firm is treated as “black boxes” which works perfectly to turn input into output. However, why there are still firms when the free market is efficient enough to balance the needs and supply? Where are the boundaries between firms and the market? How are decisions made and delegated inside the firms?

Transaction Cost Approach

Coase (1937) pointed out that free market is not free, because price mechanism induces transaction costs of, such as the cost to discover the relevant prices, the cost to negotiate, and the cost to write and enforce contracts etc. All factor holders that are involved in the production process such as workers, capital providers, managers etc., can write individual contracts with the central agent to obey his orders within certain limits¹⁹. In this sense, contract is used to definite the limits of the power boundaries among different factor holders. “A firm, therefore, consists of the system of relationships which come into existence when the direction of resource use is dependent on”²⁰ the central agent. The boundary of the firm lies at the point where “the costs of organizing an extra transaction within the firm become equal to the costs of carrying out the same transaction by means of an exchange on the open market or the costs of organizing in another firm”²¹.

Incomplete Contract Approach

Fama and Jensen (1983) and Schwartz (1998) pointed out that writing a complete contract is impossible not only because of transactions costs, but also because of following factors²²: Firstly, in a complex and highly unpredictable world, all future contingencies cannot be fully foreseen; Secondly, due to bounded rationality, it is hard for the contracting parties to process very complex information, especially in case of intangible (non-

¹⁹ Coase, 1937, P390-395

²⁰ Coase, 1937, P390-395

²¹ Coase, 1937, P390-395

²² Fama & C.Jensen, 1983, P302

contractible) knowledge assets, the contract would contain gap and missing provisions.

Fama and Jensen (1983) hence viewed the firm as the “nexus of contracts, written and unwritten, among owners of factors of production and customers”²³, which on one hand, “specify the rights of each agent in the organization, performance criteria on which agents are evaluated, and the payoff functions they face”²⁴, on the other hand, specify “(a) the nature of residual claims and (b) the allocation of the steps of the decision process among agents”²⁵. “The contract structure combines with available production technologies and external legal constraints to determine the cost function for delivering an output with a particular form of organization”²⁶. Moreover, contracts are the basis arrangements for the distribution of rights to residual claims and residual risk. This is akin to Zingales (1998)’s definition of the firm as a nexus of contracts for “a combination of mutually specialized assets and people”²⁷ and as “a network of specific investments that cannot be replicated by the market”²⁸.

Property Rights Approach

Property rights are “the right to use the asset, the right to obtain the income from the asset, and the right to sell the asset”²⁹. The property rights are the sources of possession of residual control rights especially when contracts are incomplete: “the right to decide all usages of the asset in any way not inconsistent with a prior contract, custom, or law”³⁰. According to the property rights approach, the holders of certain knowledge assets should have the right to make or transfer the right to make the residual decision rights and get the residual income.

2.3 Shareholder Value vs. Stakeholder Value vs. Shared Value

Shareholder value theory argues that the aim of management should be maximizing the shareholder’s value, while the stakeholder value theory argues that the manager should commit their duties toward all stakeholders such as

²³ Fama & C.Jensen, 1983, P302

²⁴ Fama & C.Jensen, 1983, P302

²⁵ Fama & C.Jensen, 1983, P302

²⁶ Fama & C.Jensen, 1983, P302

²⁷ Zingales, 1998, P498

²⁸ Zingales, 1998, P498

²⁹ Hart, 1998, P330-331

³⁰ Hart, 1998, P29-30

employees, communities, creditors, and suppliers. However, in many situations, there are conflicts among different interests groups. In mature market economies, professional managers would always try to find the balance among various interests groups before they make decisions. How to find the balance of different groups' interests? Which group's interests should be taken into consideration firstly, and to what extent?

Tirole (2006), Williamson (1985) and Zingales (1998) prefer the shareholder Value approach. The main reasons are that the sharing of the control rights among various stakeholders:

- may discourage financing in the first place, and generate less pledgable income³¹.
- may "create inefficiencies in decision making"³², because in many circumstances "investors and natural stakeholder have conflicting objectives"³³, which would induce deadlocks.
- may reduce managerial accountabilities. Instead of a well-defined and verifiable mission, the managers may face multiple and hard-to-measure missions, which may lead to moral hazard problems³⁴.

Williamson (1985) also supported shareholder value approach:

*"The suppliers of finance bear a unique relation to the firm: the whole of their investment in the firm is potentially placed at hazard. By contrast: the productive assets (plant and equipment; human capital) of suppliers of raw material, labor, intermediate products, electric power, and the like normally remains in the suppliers' possession"*³⁵.

Moreover, Yong & O'Byrne (2001) suggested that managers should pay attention that:

*"Capital has attained a degree of mobility that is unprecedented in human history, and it will go where it is most appreciated...companies must not be competitive in commercial market, but they must also be competitive in capital market. Otherwise their cost of capital will be higher than their competitors"*³⁶.

However, Porter and Kramer (2011) criticized the traditional shareholder value approach in their recent article in *Harvard Business Review*. They argue that:

"facing growing competition and shorter-term performance pressures from shareholders, managers resorted to waves of restructuring, personnel reductions, and relocation to lower-cost regions, while

³¹ Tirole, 2006, P59

³² Tirole, 2006, P59

³³ Tirole, 2006, P59

³⁴ Tirole, 2006, P59

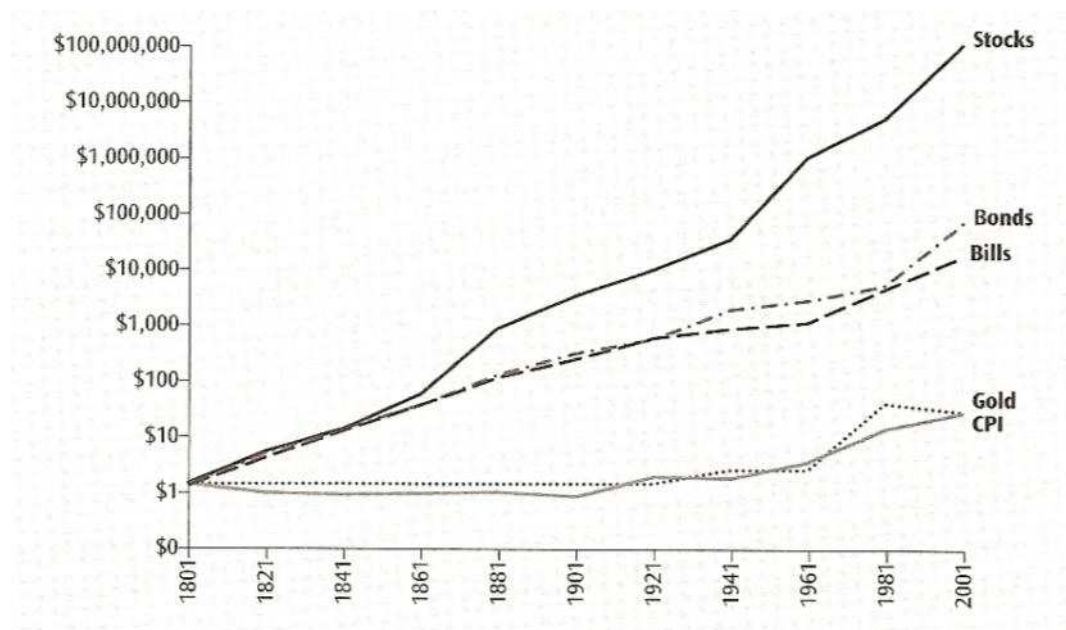
³⁵ Zingales, 1998, P500-501

³⁶ Yong & O'Byrne, 2001, P8

*leveraging balance sheets to return capital to investors. The results were often commoditization, price competition, little true innovation, slow organic growth, and no clear competitive advantage*³⁷.

As a response, they introduce a new approach “shared value”. The aim of shared value is to expand the total pool of economic and social value, which involves creating economic value in a way that also creates value for society by addressing its needs and challenges³⁸. Shared value can be achieved “by reconceiving products and markets, redefining productivity in the value chain, and building supportive industry clusters at the company’s locations”³⁹. They argue that “shared value opens up many new needs to meet, new products to offer, new customers to serve, and new ways to configure the value chain”⁴⁰, which would create more sustainable competitive advantages.

Figure 2.2 Shareholder Return Indexes, 1801-2003



Source: Koller, Goedhart, Wessels, McKinsey, 2005, P136

However, in the long run, the stock markets are not that chaotic and shortsighted as Porter and Kramer (2011) imagined. The capital markets can identify and reward the companies which have long-term value creation strategies, as figure 2.2 shows. Koller, Goedhart and Wessels (2005) found that there is “a strong positive relation between shareholder returns and investment in R&D”⁴¹ and that “stock markets are perfectly capable of seeing the economic fundamentals behind accounting information”⁴² and can even

³⁷ Porter & Kramer, 2011

³⁸ Porter & Kramer, 2011

³⁹ Porter & Kramer, 2011

⁴⁰ Porter & Kramer, 2011

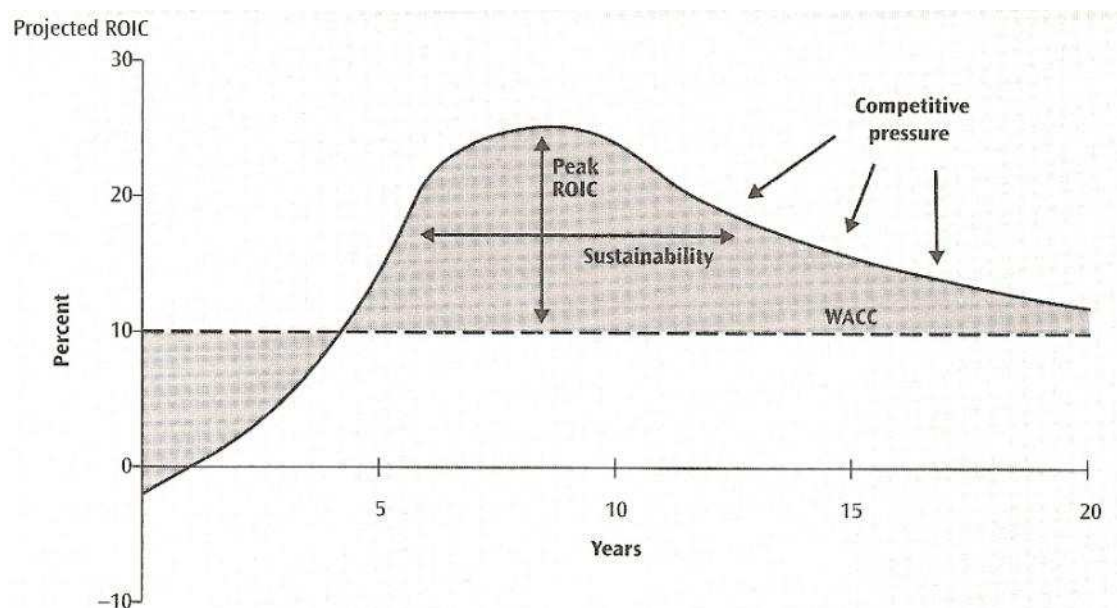
⁴¹ Koller, Goedhart, Wessels, McKinsey, 2005, P20

⁴² Koller, Goedhart, Wessels, McKinsey, 2005, P70

mirror “economic fundamentals throughout a century of technical revolutions, monetary changes, political and economic crises, and wars”⁴³.

As a general framework for value creation, the ability to create value can be measured in two dimensions: “the level of peak return on invested capital (ROIC) and the sustainability of the returns in excess of the cost of capital”⁴⁴, as illustrated in figure 2.3. The market value of the companies is “determined by the company’s absolute level of long-term performance and growth, i.e. the expected revenue, earnings growth and return on invested capital (ROIC)”⁴⁵.

Figure 2.3 A General Model of Value Creation



Source: Koller, Goedhart, Wessels, McKinsey, 2005, P136

In conclusion, the firm exists because of the high transaction cost of the market itself and it is a set of contracts to specify the distribution of residual risk, residual claims and the decision making process. Agency problems arise because of the separation of ownership and control, which has roots in the division of knowledge assets. Based on the property rights point of view, the author agrees that although shareholder value and other stakeholder value or shared value should all be taken into consideration, shareholder value would be given the most weight and is considered to be the most important factor, because (1) capital providers bear more risk than other stakeholders, (2) the capital markets would award those companies who create more shareholder value; (3) the management process needs a clarified set of goals to make decision.

⁴³ Koller, Goedhart, Wessels, McKinsey, 2005, P6

⁴⁴ Koller, Goedhart, Wessels, McKinsey, 2005, P135

⁴⁵ Koller, Goedhart, Wessels, McKinsey, 2005, P70

Chapter 3 Control Rights and Corporate Governance

3.1 Ownership Structure and Ownership Concentration

Demsetz (1998) pointed out that “in a world in which institutional arrangements reflect rational calculation, ownership is based on both scarcity and on the ability to influence the impact of scarcity through the exercise of control over the scare resources”⁴⁶. This is akin to the arguments of Windsperger and Yurdakul (2007):

“the more intangible knowledge assets one person has relative to another person, the more important are his assets for the generation of residual income, and the more residual decision rights should be assigned to that person... (and hence)...the more residual income rights should be transferred to him”⁴⁷.

The ownership structure and ownership concentration are generally taken as the basis for the distribution of control rights. According to figure 3.1, the ownership structures of leading corporations in different countries are quite different, especially in Anglo-Saxon countries, the ownership structures are more dispersed and the ownership concentration rates are lower. Shleifer and Vishny (1986) found that “ownership is extremely dispersed in the U.S, above 50% of Fortune 500 firms have at least one shareholder holding a block exceeding 5%, large blocks are relatively rare...the median largest shareholder has only 9% of the firm's equity”⁴⁸.

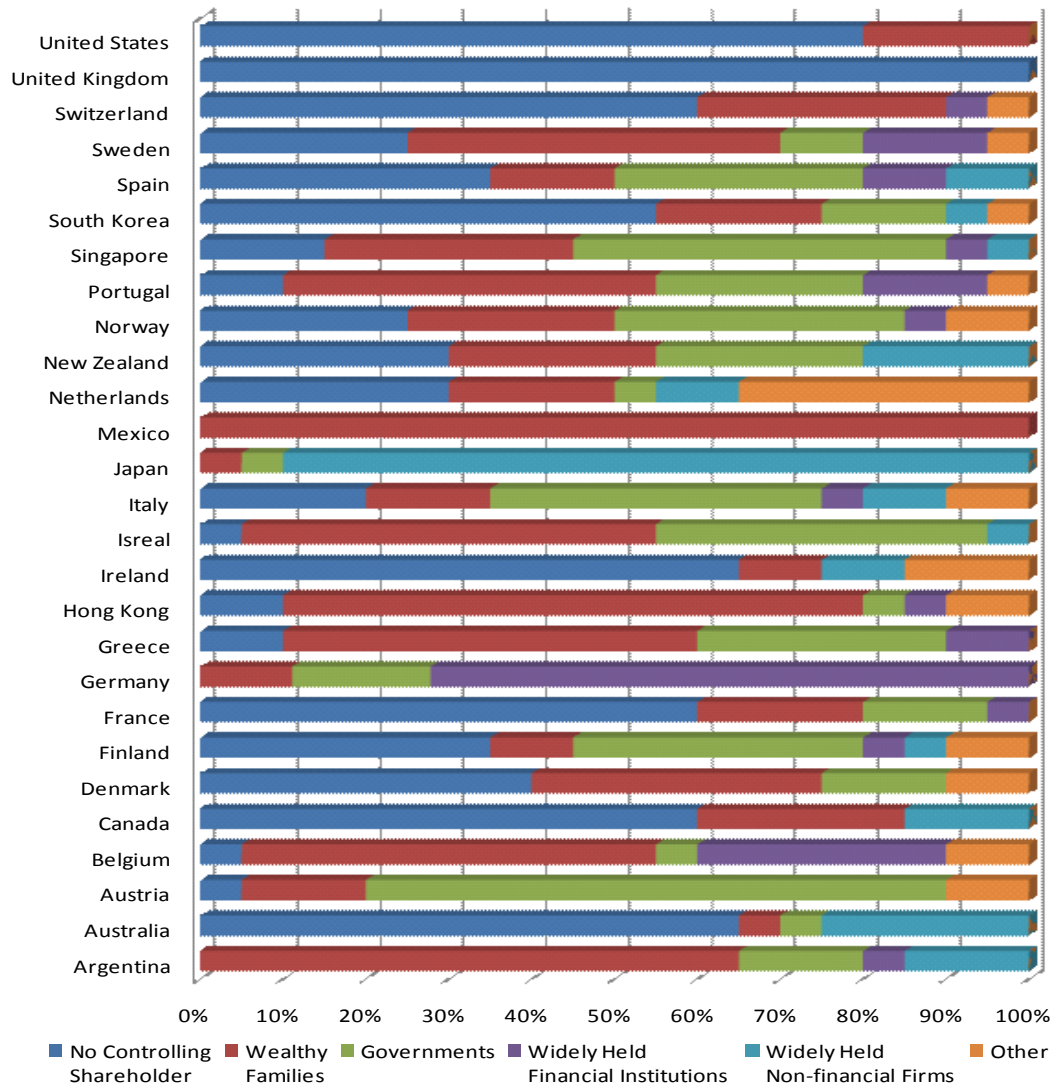
Banks and other financial institutions, insurance companies, pension funds, mutual funds, families, governments, nonfinancial business and households are the main players in the capital market. For example, in Germany the financial institutions occupy greater market shares. In non-Anglo-Saxon countries pension funds and mutual funds seem to play a less dominant role. As illustrated in table 3.1 and table 3.2, ownership share of nonfinancial business especially cross-shareholdings among firms is widespread.

⁴⁶ Demsetz, 1998, P152

⁴⁷ Windsperger & Yurdakul, 2007, P75

⁴⁸ Tirole, 2006, P40

Figure 3.1 Who Controls the World's Great Corporations?



Source: La Porta et. (1999) with Japanese data augmented by morck and Nakamura (1999) to account for combined keiretsu stakes and German data augmented with information from Baums (1995) to account for bank proxy voting.

Notes: Fraction of top ten firms with different types of controlling shareholders is shown for each country. Control is assumed if any shareholder or group of shareholders believed to work in consort controls 20 percent of the votes in a country's annual shareholder meeting.⁴⁹

Family plays an important role as controlling owner not only in developed countries like Sweden, Switzerland, Israel, Germany and Hong Kong, but also in developing countries such as Mexico and Argentina, as illustrated in table 3.3 and figure 3.1. Faccio and Lang (2002) find that "54% of European firms have only one controlling owner and that more than two-thirds of the family-controlled firms have top managers from the controlling family"⁵⁰. Claessens et al. (2002) found that "more than two-thirds of the firms are controlled by a

⁴⁹ Originally cited from Steier & Morck, 2005, P3.

⁵⁰ Tirole, 2006, P40

single shareholder, and about 60% of the firms that are not widely held are managed by someone related to the family of the controlling shareholder”⁵¹.

Table 3.1 Ownership Concentration and Identities in Selected Countries

Country	No. of firms	Stand.			Non-				
		Mean largest holder	Dev. Largest holder	Median largest holder	Family holdings	Financial holdings	financial holdings	State holdings	Dispersed
Argentina	8	40,2	14,9	41,3	12,5	25,0	50,0	12,5	0,0
Australia	114	24,8	19,3	17,1	30,7	17,5	30,7	0,0	21,1
Austria	30	59,4	21,7	54,5	6,7	23,3	53,3	16,7	0,0
Brazil	25	58,6	22,6	59,4	12,0	12,0	56,0	20,0	0,0
Canada	280	37,0	24,7	29,7	34,6	19,6	40,4	3,3	2,1
Finland	34	26,9	19,8	20,7	5,9	17,6	38,2	23,6	14,7
France	187	48,9	24,3	50,0	25,1	17,6	51,3	2,3	3,7
Germany	240	54,0	24,7	51,7	26,7	15,4	48,8	7,0	2,1
Great Britain	687	16,0	13,3	11,8	17,9	37,0	15,1	1,8	28,2
Hong Kong	43	38,6	15,5	35,6	14,0	34,9	51,2	0,0	0,0
India	37	45,1	13,8	39,9	2,7	2,7	43,2	51,4	0,0
Italy	57	45,2	18,6	47,5	3,5	40,4	47,4	3,4	5,3
Japan	1036	15,1	13,3	8,9	5,9	6,6	58,1	0,2	29,2
Mexico	8	47,4	11,8	50,8	50,0	0,0	50,0	0,0	0,0
Netherlands	66	27,1	25,0	16,0	6,1	13,6	43,9	6,1	30,3
Norway	42	29,9	17,0	26,9	16,7	23,8	47,6	7,1	4,8
Singapore	97	38,5	19,5	34,0	27,8	28,9	43,3	0,0	0,0
South Africa	25	42,2	17,1	44,8	24,0	24,0	48,0	4,0	0,0
South Korea	16	19,1	17,6	12,8	25,0	6,3	25,0	12,4	31,3
Spain	59	37,8	25,9	29,1	1,7	23,7	57,6	8,5	8,5
Sweden	54	28,3	16,2	25,0	16,7	38,9	33,3	3,7	7,4
Switzerland	66	45,6	27,7	48,0	33,3	10,6	42,4	4,6	9,1
Taiwan	11	15,8	19,5	5,4	18,2	9,1	9,1	9,1	54,5
Turkey	5	41,5	19,3	37,1	20,0	40,0	40,0	0,0	0,0
United States	3070	21,9	15,5	16,8	47,3	25,9	14,6	0,9	11,3
United States (largest)	500	13,5	12,9	10,3	3,4	9,2	6,6	0,5	80,3

Source: Mueller, 2003, P96

⁵¹ Tirole, 2006, P40

Table 3.2 Ownership of common stock (as a percentage of total outstanding common shares in 2002) for (a) all equity and (b) listed equity

	(a)				(b)			
	U.S.	Japan	France	Germany	U.K.	Japan	France	Germany
1. Banks and other financial institutions	2,3	9,0	12,1	10,5	12,6	7,4	12,6	33,5
2. Insurance companies	7,3	4,3	4,5	9,9	19,9	7,3	7,0	7,4
3. Pension funds	16,9	5,4			15,6	5,6		
4. Mutual funds	19,5	1,9	5,9	11,3	4,5	6,6	19,0	4,6
5. Households	42,5	14,0	19,5	14,7	14,3	16,8	6,5	22,9
6. Nonfinancial business	n.a	43,7	34,3	34,2	0,8	38,1	20,2	11,7
7. Government	0,7	14,0	4,5	2,7	0,1	4,1	3,6	1,9
8. Foreign	10,6	7,7	19,2	16,6	32,1	14,0	31,2	18,1

Source: Tirole (2006) P37

Table 3.3 Identity of controlling owners in selected countries in Europe (1996-2000) and Asia (1996) (%)

	Europe			Asia		
	France	Germany	U.K.	Hong Kong	Japan	Taiwan
Widely held	14	10	63	7	80	26
Family	65	64	24	67	10	48
Identified family	26	27	12			
Unlisted firms	39	38	11			
State	5	6	0	1	1	3
Widely held corporation	4	4	0	20	3	6
Widely held financial	11	9	9	5	7	5
Miscellaneous	1	3	3			
Cross-holdings	0	2	0			
Number of firms	607	704	1953	330	1240	141

Source: Tirole (2006) P40-41, Faccio and Long (2002). Reprinted from Journal of Financial Economics, Volume 65, M.Faccio and L.Lang, The ultimate ownership of Western European corporations, pp365-395, Copyright (2002); Claessens et al.(2002), Reprinted from Journal of Financial Economics, Volume 58, S.Claessens, S.Djankov, and L.Lang. The separation of ownership and control in East Asian corporations, pp.81-112, Copyright (2000)

3.2 Control Rights

Control rights are the “rights for a party (or group of parties) to affect the course of action in certain circumstances once the firm has gotten started”⁵².

Control rights have following characteristics:

- (1) Contingency. For instance, the ownership rights would transfer to the entrepreneur when a patent is awarded or the key financial indicators surpass some threshold value⁵³.
- (2) Transferability. For instance, one “can use one’s control right over decision A as a bargaining chip to obtain concession along dimension B”⁵⁴.

Generally speaking, there are five types of control rights:

- (1) Complete control. It is popular with private corporation especially family enterprises, in which “a single individual or small group of associates own all or practically all the outstanding stock”⁵⁵.
- (2) Major control. “In a truly large corporation...more often control is maintained with a relatively small proportion of ownership”⁵⁶.
- (3) Control through a legal device without major ownership. Family holdings, financial holdings, non-financial holdings, state holdings and cross holdings are the major forms⁵⁷.
- (4) Minority control. “When an individual or small group hold a sufficient stock interest to be in a position to dominate a corporation through their stock interest”⁵⁸, they have actually the working control of the company. An example would be so-called block holders.
- (5) Management control. This occurs “when contracts are incomplete and managers possess more expertise than shareholders, managers typically end up with the residual rights of control”⁵⁹.

⁵² Tirole, 2006, P36

⁵³ Tirole, 2006, P36

⁵⁴ Tirole, 2006, P36

⁵⁵ Berle & Means, 1968 (1932), P67

⁵⁶ Berle & Means, 1968 (1932), P 67

⁵⁷ Berle & Means, 1968 (1932), P 67

⁵⁸ Berle & Means, 1968 (1932), P 67

⁵⁹ Schleifer & Vishny, 1997, P740-742

3.3 The Fixed-Investment Model

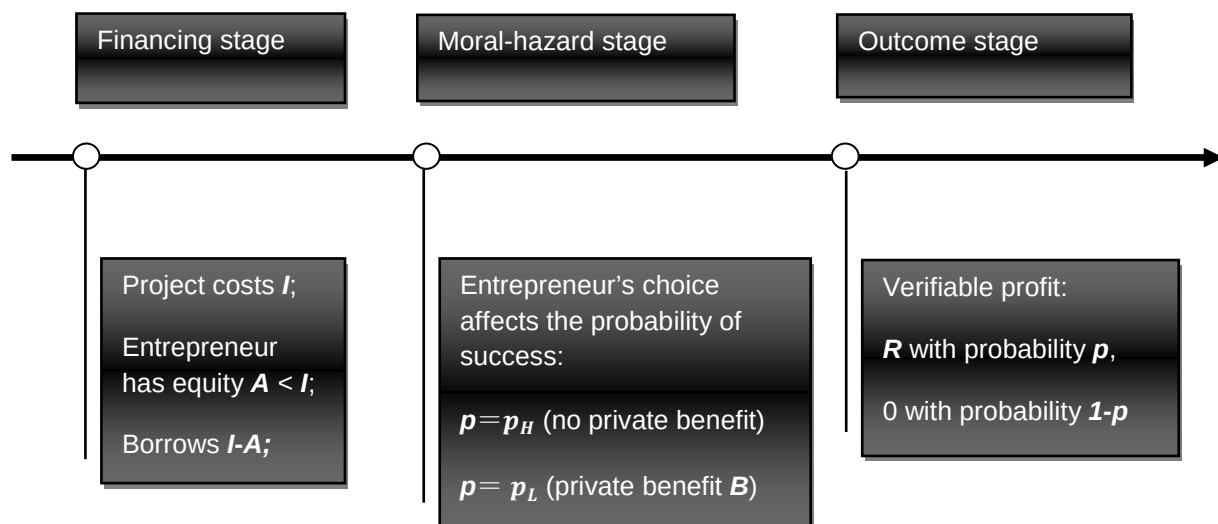
In order to form a basis to analyze markets in terms of control rights and corporate governance, the Fixed-Investment Model is introduced as a starting scenario.

As illustrated in figure 3.2, assume that an entrepreneur has assets A and wants pursue a project, which requires a fixed investment I ($A < I$). He then borrows $I-A$ from investors and there could be 2 possible outcome

Scenario 1: the project succeed with probability of p and verifiable income R ($R > 0$), from which R_E for entrepreneur and R_I for investors;

Scenario 2: the project fails with probability of $1-p$, and hence generates no income.

Figure 3.2 the Fixed-Investment Model



Source: Tirole, 2006, P115

For the purpose of simplicity, assume that both entrepreneur and investors have limited liabilities and no time preference, and they are risk neutral. The rate of return expected by the investors is 0, which means investors break even and do not earn supernormal profits in a competitive capital market. Hence, the Net Present Value (NPV) of the project would be wholly granted to the entrepreneur. The project is subject to moral hazard and hence there would be two possible scenarios⁶¹:

Scenario 1: the entrepreneur can behave, which would yield success with probability $p = p_H$ and verifiable profit R , but no private benefit.

⁶⁰ Tirole, 2006, P115

⁶¹ Tirole, 2006, P115

Scenario 2: the entrepreneur may misbehave, which would yield success with probability $p = p_L$ ($p_L < p_H$) and verifiable profit 0 , but private benefit B ($B > 0$). Let $\Delta p \equiv p_H - p_L$.

In order to persuade the entrepreneur to behave, two constraints should be met:

- (1) **Incentive compatibility constraint**⁶²: the entrepreneur receives greater income when he behaves than private benefit he would get when he misbehaves.

$$\Delta p R_E \geq B \quad (IC_E)$$

- (2) **Investor breakeven constraint**⁶³: If the entrepreneur behaves, the project should at least yield more value to the investor than the original cost of the investment

$$p_H \left(R - \frac{B}{\Delta p} \right) \geq I - A \quad (IR_I)$$

If both the “Incentive compatibility constraint” (IC_E) and “Investor breakeven constraint” (IR_I) are met, the “Expected Pledgable Income” would be

$$p_H \left(R - \frac{B}{\Delta p} \right) \quad \text{Expected Pledgable Income}^{64}$$

and the “Residual Claim of Entrepreneur” would be:

$$NPV = p_H R - I \quad \text{Residual Claim of Entrepreneur}^{65}$$

This is the basic model to illustrate how entrepreneur and investors finance projects through contracting. A complete contract is signed to arrange all the future contingencies and the distribution of residual risk and residual claim. In this case no corporate governance systems are needed. In the following sections, corporate governance systems would be introduced based on this basic model.

⁶² Tirole, 2006, P115

⁶³ Tirole, 2006, P115

⁶⁴ Tirole, 2006, P115

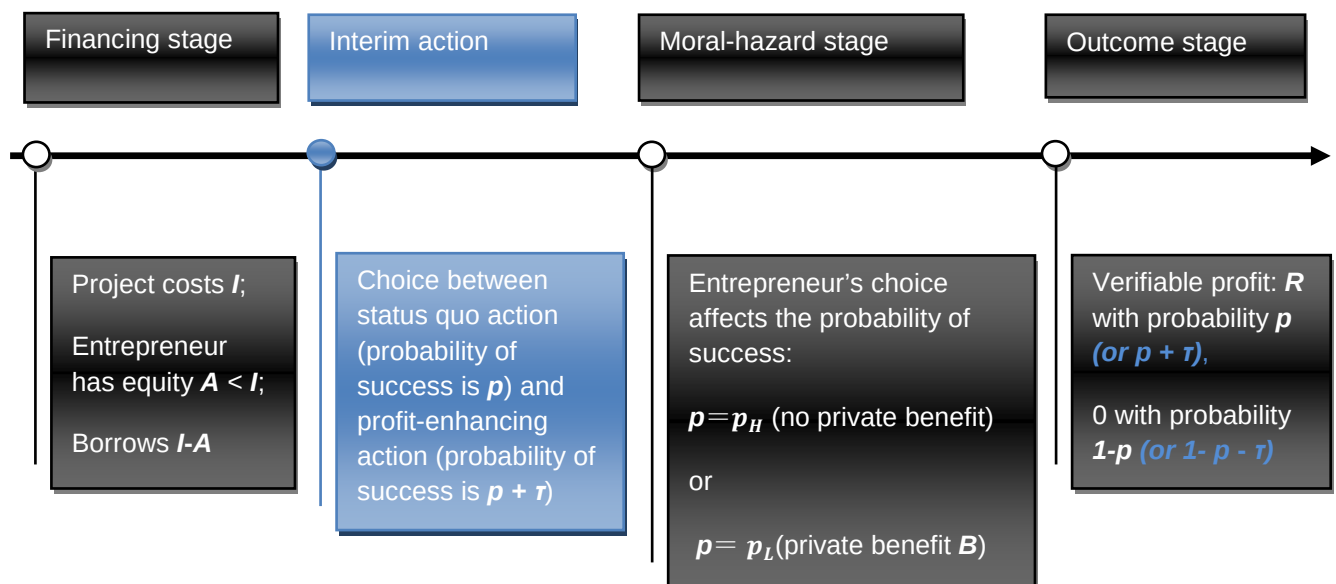
⁶⁵ Tirole, 2006, P115

3.4 Market for Control Rights: the Aghion-Bolton Model

Based on the “Fixed-Investment Model”, Tirole (2006) argues that by allocating control rights, in order to attract sufficient financing investors would enable the entrepreneur to commit efficiently to generate more residual claims to investors⁶⁶. The entrepreneur would choose to take interim actions, which are profit enhancing activities such as by “switching to a more routine but more profitable strategy, (by) serving a long-time relationship with a collaborator, firing workers, or (by) divesting a division that management is eager to run”⁶⁷. As figure 3.3 illustrates, this would in turn raise the possibility of project success uniformly by τ ($\tau > 0$), from (p_H, p_L) to $(p_H + \tau, p_L + \tau)$ ⁶⁸.

However, interim actions would generate private cost γ ($\gamma > 0$) for the entrepreneur. In first-best situation, when the entrepreneur chooses to take interim actions and create more value than the cost ($\tau R > \gamma$), the Net Present Value (NPV) increases from $p_H R - I$ to $(p_H + \tau)R - I - \gamma$ and the pledgeable income would also increase from $p_H(R-B/\Delta p)$ to $(p_H + \tau)(R-B/\Delta p)$ ⁶⁹. In short, the transfer of control rights to investors facilitates financing and increases the pledgeable income and thus increases the utility of the entrepreneur⁷⁰.

Figure 3.3 the Aghion-Bolton Model



Source: Tirole, 2006, P390

⁶⁶ Tirole, 2006, P390

⁶⁷ Tirole, 2006, P390

⁶⁸ Tirole, 2006, P390

⁶⁹ Tirole, 2006, P390

⁷⁰ Tirole (2006), Aghion-Bolton (1992), Hart (1995a), Hart and More (1989)

In practice, the entrepreneur may have to relinquish control rights in order to be able to finance growth, for instance through IPO. Conversely, “entrepreneur prefer to sacrifice growth and keep control over operating, investment, and personal decisions, e.g. not being able to select one’s heir is akin to the cost γ in the model”⁷¹. In conclusion, the entrepreneur’s preference over control rights may have great influence on the corporate governance structure.

3.5 Formal Control vs. Real Control

Control rights are the basis of corporate governance structure. Tirole (2006) summarized control rights in two categories⁷²:

Formal control

Typical situations are that the control right are mostly “enjoyed by a family with a majority of voting shares, by headquarters over divisions in a conglomerate, or by a venture capitalist with explicit control rights over a start-up. The advantage of the formal control is that It “enables large owners to, directly and unencumbered...implement the changes he deems necessary”⁷⁴.

Real control

It could happen in two situations⁷⁵:

Scenario 1: minority control

Minority shareholders, such as block holders, could “persuade other owners or at least a fraction of them sufficient to create a dissenting majority of the need for intervention”⁷⁶. In this case, since there is a “free rider problem”, its success depends on two factors: (1) “ease of communication and of coalition-building with other investors; (2) congruence of interest among others owners”⁷⁷. The degree of congruence itself depends on many factors such as the minority owner’s reputation, his stake in the firm and the absence of conflict of interests.

⁷¹ Tirole, 2006, P390

⁷² Tirole, 2006, P390

⁷³ Tirole, 2006, P36

⁷⁴ Tirole, 2006, P37

⁷⁵ Tirole, 2006, P390

⁷⁶ Tirole, 2006, P37

⁷⁷ Tirole, 2006, P37

Scenario 2: Management control

Managers can often obtain real control, because they are normally better informed than investors and thus they can influence decision making. Whether managers can exercise real control depends on following conditions: (1) the trustworthy the managers appear to uninformed parties, which in turn depends on their incentives; (2) the alignment of interests between managers and investors⁷⁸.

Based on Aghion-Bolten Model⁷⁹, assume that:

- (1) The initial contract allocates formal control rights to investors and specifies a compensation schema R_E for the entrepreneur in the case of project success. The investors bear cost γ to increase probability of success by τ ;
- (2) When the entrepreneur shirks and profit-decreasing actions happen, the entrepreneur gets extra private benefit beyond B ;

The investors would trust and agree with the entrepreneur when their expected value of benefits is positive ($E(\tau I \tau R_E \geq 0) \geq 0$), which implies that “the key to managerial real control is congruence... (and) the higher the power of the managerial incentive scheme, the more likely it is that investors will go along with the entrepreneur’s proposal”⁸⁰.

The strength of the balance sheet, which is measured by the entrepreneur’s initial assets A , can affect the distribution of the formal and real control rights. Generally, “a firm with strong balance sheet (a higher A) must pay back less to investors; thus R_E is large and so the entrepreneur enjoys much real control over decisions”⁸¹.

In conclusion, the ownership structure and ownership concentration are the basis for the distribution of control rights, which helps shape the corporate governance structure. Fixed-Investment Model illustrates the benchmark situation how entrepreneur and investors finance projects and arrange distribution of residual risk and residual claim through complete contracting. However, according to the Aghion-Bolton Model, in case of agency problem, corporate governance instruments can help generate better corporate outcome, this is the theoretical basis for the necessity to introduce corporate governance.

⁷⁸ Tirole, 2006, P36

⁷⁹ Tirole, 2006, P403

⁸⁰ Tirole, 2006, P403

⁸¹ Tirole, 2006, P403

Chapter 4 Value-based Corporate Governance and Economic Value Added

4.1 Corporate Governance

According to Aghion-Bolton Model, since the initial contract is incomplete, it can't fully specify the distribution of residual risk and residual claims in every possible contingency. Zingales(1998) defined corporate governance as "the complex set of constraints that shape the ex post bargaining over the quasi rents generated by a firm"⁸². In the same sense, Hart(1995) defined corporate governance as "a mechanism for making decisions that have not been specified in the initial contract...(for) allocating residual rights of control over the firm's nonhuman assets and the right to decide how these assets should be used"⁸³.

Generally speaking, a good corporate governance system is "the set of criteria and tools necessary to ensure, in accordance with the rules, sustainable value creation, strategic effectiveness and operational efficiency in an organization"⁸⁴. In this sense, the objectives of a corporate governance system are as follows:

- "to maximize the incentives for value enhancing investments, while minimizing inefficient power seeking;
- to minimize the ex post bargaining;
- to minimize any "governance" risk and allocate the residual risk to the least risk-averse parties"⁸⁵.

⁸² Zingales, 1998, P498

⁸³ Hart, 1995, P680

⁸⁴ Nenning, 2006, P2

⁸⁵ Zingales,1998, P498, Fama and Jensen (1983)

4.2 Corporate Governance Systems around the World

Thanks to economic globalization, especially in forms of multinational companies, worldwide merger and acquisitions, and the global financing, a global convergence of corporate governance is under discussion. Generally, there are three types of corporate governance around the world:

Anglo-American Unitary Board Model⁸⁶

It is popular in the US, the UK and also the so-called commonwealth countries such as Australia, Canada, India, New Zealand, South Africa and Singapore. It is a market-oriented, outsider corporate governance system, which relies mostly on exit-based, external mechanisms. It is based on case law tradition, thus a perspective rule based legal approach to governance. It is a self-regulated system and thus compliance is voluntary. It takes the “comply or explain” except for in the US due to the Sarbanes-Oxley Act, which transforms decision making into mostly a rule-based approach.

Continental European Two-tier Model⁸⁷

It is the most popular model in continental European countries such as Germany, Austria, France and Italy. Banks are always the most important shareholders and the corporate governance system rests predominantly on internal mechanisms. It is based on the rule-based European law tradition. “The co-determination rules in Germany require one half of the supervisory board to represent labor, with employee representative directors elected through the trades unions, the other half to represent capital, elected by the shareholders”. Mostly there are strong works councils which represent the employees wield power.

Japanese Business Network Model⁸⁸

It is also called *Keiretsu*, which are “networks of companies in Japan connected through cross-holding and with interlocking directorships”⁸⁹. It is a reflection of the social networking within Japanese society, which emphasis on unity “throughout the organization, non-adversarial relationships, lifetime employment, enterprise unions, personal policies encouraging commitment, initiation into the corporate family, decision making by consensus, cross-functional training, and with promotion based on loyalty and social compatibility as well as performance”⁹⁰.

⁸⁶ Bob, 2009, P187-190

⁸⁷ Bob, 2009, P187-190

⁸⁸ Bob, 2009, P187-190

⁸⁹ Bob, 2009, P187-190

⁹⁰ Bob, 2009, P187-190

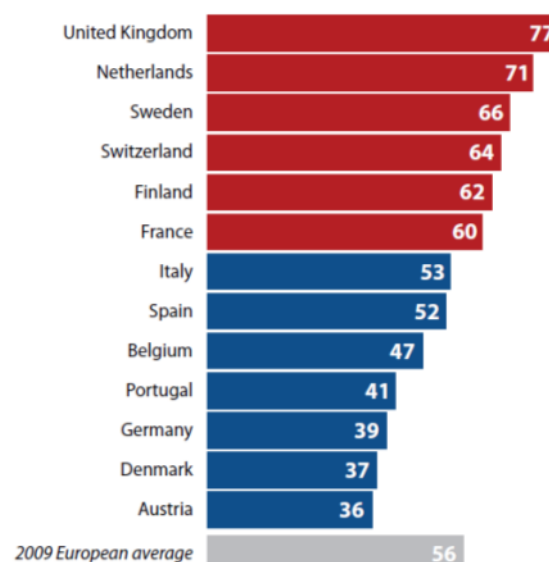
In Europe corporate governance systems are quite diversified, there are unitary board, two-tier board and mixed system, as figure 4.1 illustrates. Heidrick & Struggles (2009) compared the quality of the corporate governance systems in some European countries by analyzing three different dimensions⁹¹: (1) transparency (directors, remuneration and committees); (2) composition of the board (board independence, diversity, composition of committees); (3) working style of the board (availability, committee structure, and board evaluation and inertia factor). The results are showed in the figure 4.2.

Figure 4.1 European Corporate Governance Systems



Source: Heidrick & Struggles, 2009, P9

Figure 4.2 European Corporate Governance Ranking 2009

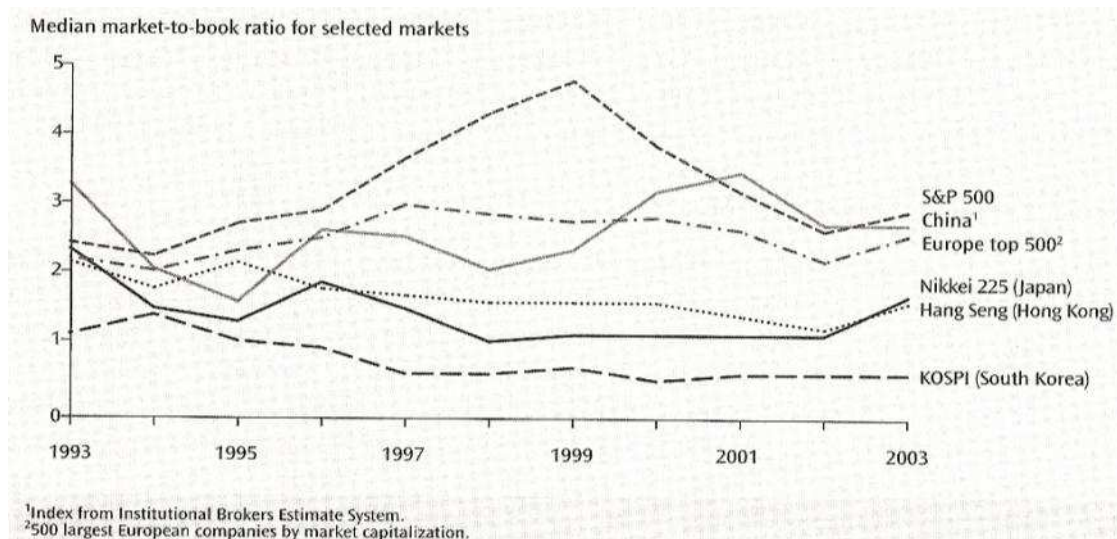


Source: Heidrick & Struggles, 2009, P9

⁹¹ Source: Heidrick & Struggles, 2009, P9

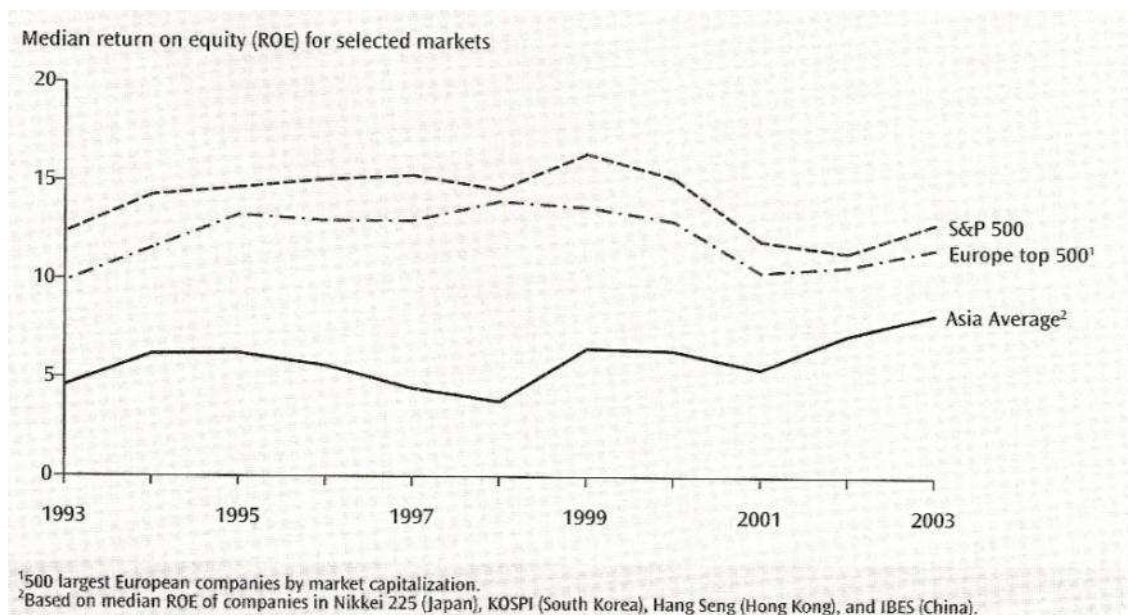
Different governance systems have different ownership structure, corporate strategies, laws, governance codes, cultures, economic systems and histories of evolution. As figure 4.3 and figure 4.4 illustrate, although the Anglo-American Model outperforms the other two, we cannot simply conclude that it is the best solution for every country. Anglo-American Model is still far from perfect, as the recent Financial Crisis of 2007–2010 demonstrated.

Figure 4.3 US Companies Valued Higher than Europe and Asia



Source: Koller, Goedhart, Wessels, & McKinsey, 2005, P14

Figure 4.4 US Companies Earn Higher Returns on Equity



Source: Koller, Goedhart, Wessels, & McKinsey, 2005, P14

However, there are some factors which always have the same identities among the good corporate governance systems around the world: (1) at national level, countries with good corporate governance practice always have stronger national competition (see appendix 1 and appendix 2); (2) at the industry and company levels, companies with good corporate governance can create more value and thus are outperformance other competitors (see appendix 3, appendix 4 and appendix 5).

4.3 Economic Value Added (EVA)⁹²

The aim of good corporate governance systems should be the creation of value, either for shareholders or for stakeholders. As figure 4.5 illustrates, a good corporate governance system should have consistent standards, goals, indicators and terminology during the whole value creating process, which typically includes the following steps: goal setting, planning, capital allocation, performance measurements and incentive compensation. The typical indicators of value creation are Economic Profit, Economic Value Added (EVA), Return on Investment (ROI) and Market Value Added (MVA) etc.

In this paper the author choose Economic Value Added (EVA) as the key indicator for a good corporate governance system. The reasons are: (1) Economic Value Added (EVA) can be used for both forward-looking and performance measurement; (2) Technically speaking, it can be aligned to management compensation, as figure 4.6 shows; (3) Economic Value Added (EVA) is similar to the accounting profit indicator “Residual Income”, but it actually converts the “Residual Income” into a flow measurement of economic profit, the so-called “Rents”⁹³, as figure 4.7 illustrates. In the sense of opportunity cost, revenues should be sufficient to cover all operating costs and all capital cost (including the cost of equity finance).

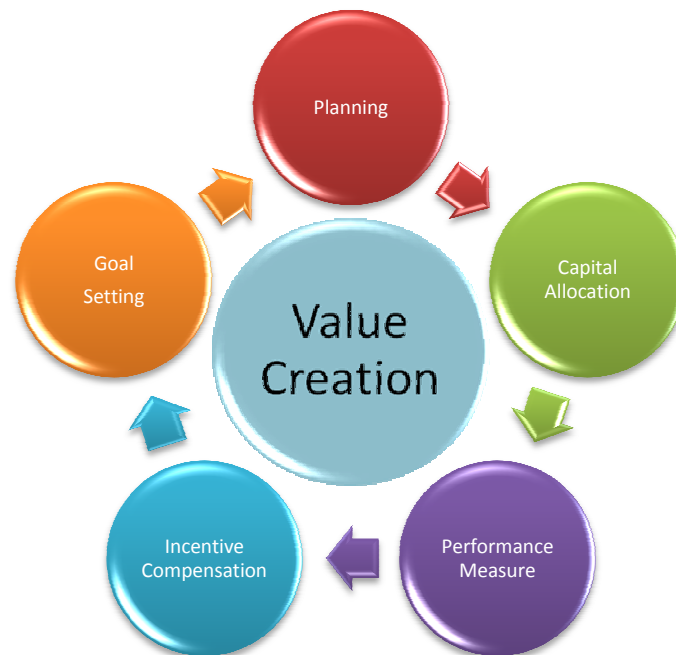
Economic Value Added (EVA) can be calculated in two ways, as illustrated in figure 4.7, whereby the invested capital equals the sum of the entire firm’s “financing, apart from short-term, non-interest-bearing liabilities, such as accounts payable, accrued wages, and accrued taxes”⁹⁴.

⁹² EVA® is a registered trademark of Stern Stewart & Co.

⁹³ Yong & O’Byrne, 2001, P43

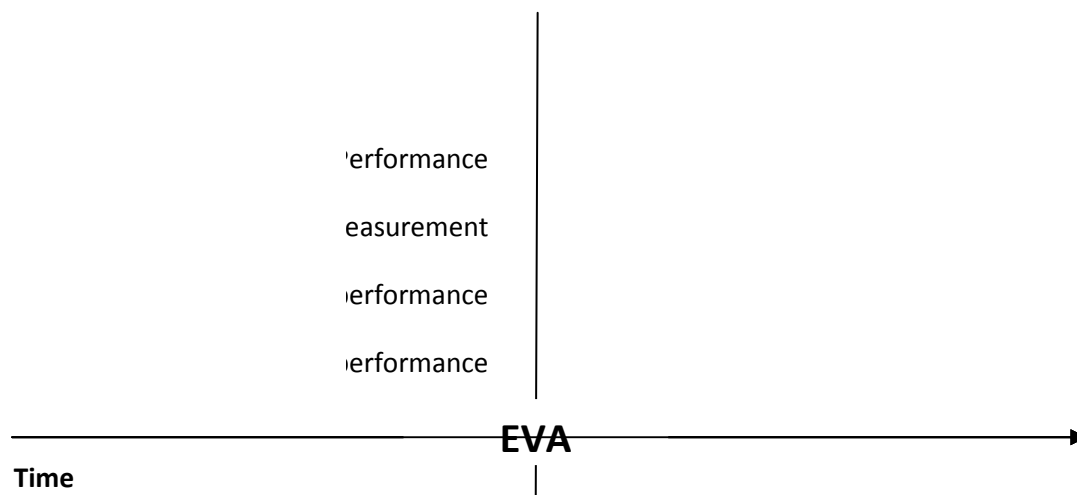
⁹⁴ Yong & O’Byrne, 2001, P43

Figure 4.5 A Good Governance System: Consistent Standards, Goals and Terminology



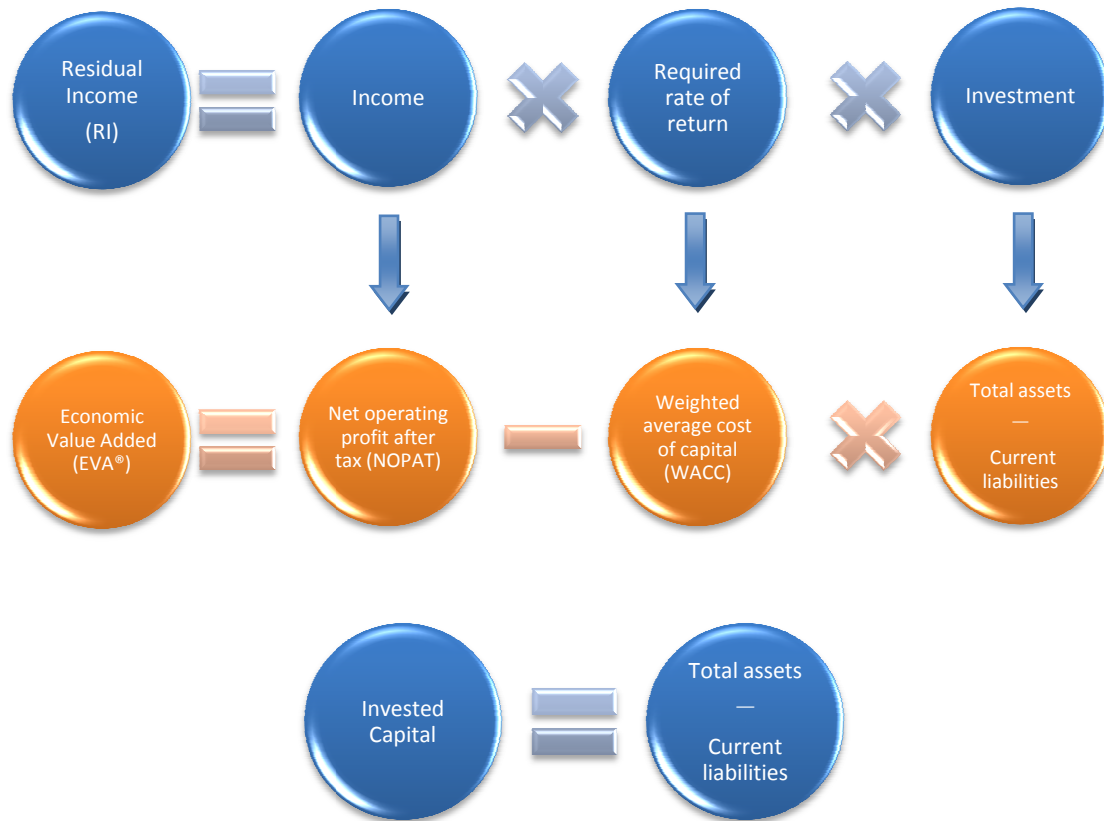
Source: Nenning, 2006, P6

Figure 4.6 EVA: Bridging the Gap between Valuation and Performance Measurement



Source: Yong & O'Byrne, 2001, P74

Figure 4.7 Definition and Calculation of Economic Value Added



Source: Illustrated by the author according to Horngren, Datar, Foster, Rajan, & Ittner, 2009, P829-830 and Yong & O'Byrne, 2001, P35-54.

Based on the economic value added schema, the possible ways to create value could be as follows⁹⁵:

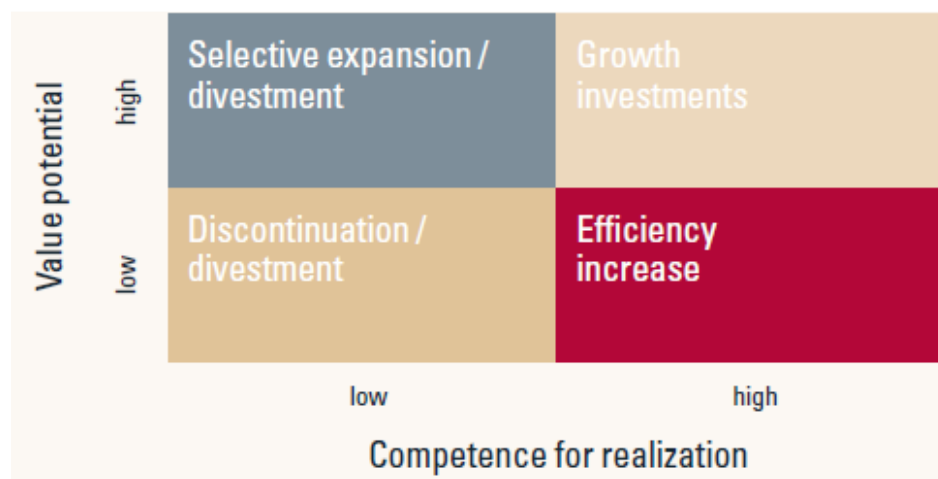
1. Increase returns on existing capital by cutting costs, creating brand equity, and improving asset efficiency.
2. Generate profitable growth. To grow the market value faster than capital by investing capital in high-return projects.
3. Divest from value-destroying activities.
4. Reduce the cost of capital by selecting the capital structure that minimizes the firm's cost of capital.

⁹⁵ Yong & O'Byrne, 2001, P68-73

4.4 Capital Allocation Process

At the project level, during the capital allocation process, the decisions over capital allocation should be aligned with the firm's strategic goals in order to build profitable growth and create value, as figure 4.8 illustrates. Two dimensions should be taken into consideration⁹⁶: Firstly, how much potential would the projects characteristics (potential value-creating ideas, strategies, product innovations, or promotional campaigns, as figure 4.8 shows) create value for the firm? Secondly, does the firm have enough resources to realize those projects, which would either increase the efficiency or boom growth?

Figure 4.8 Strategic Capital Allocation: Building Profitable Growth, Releasing Unemployed Assets



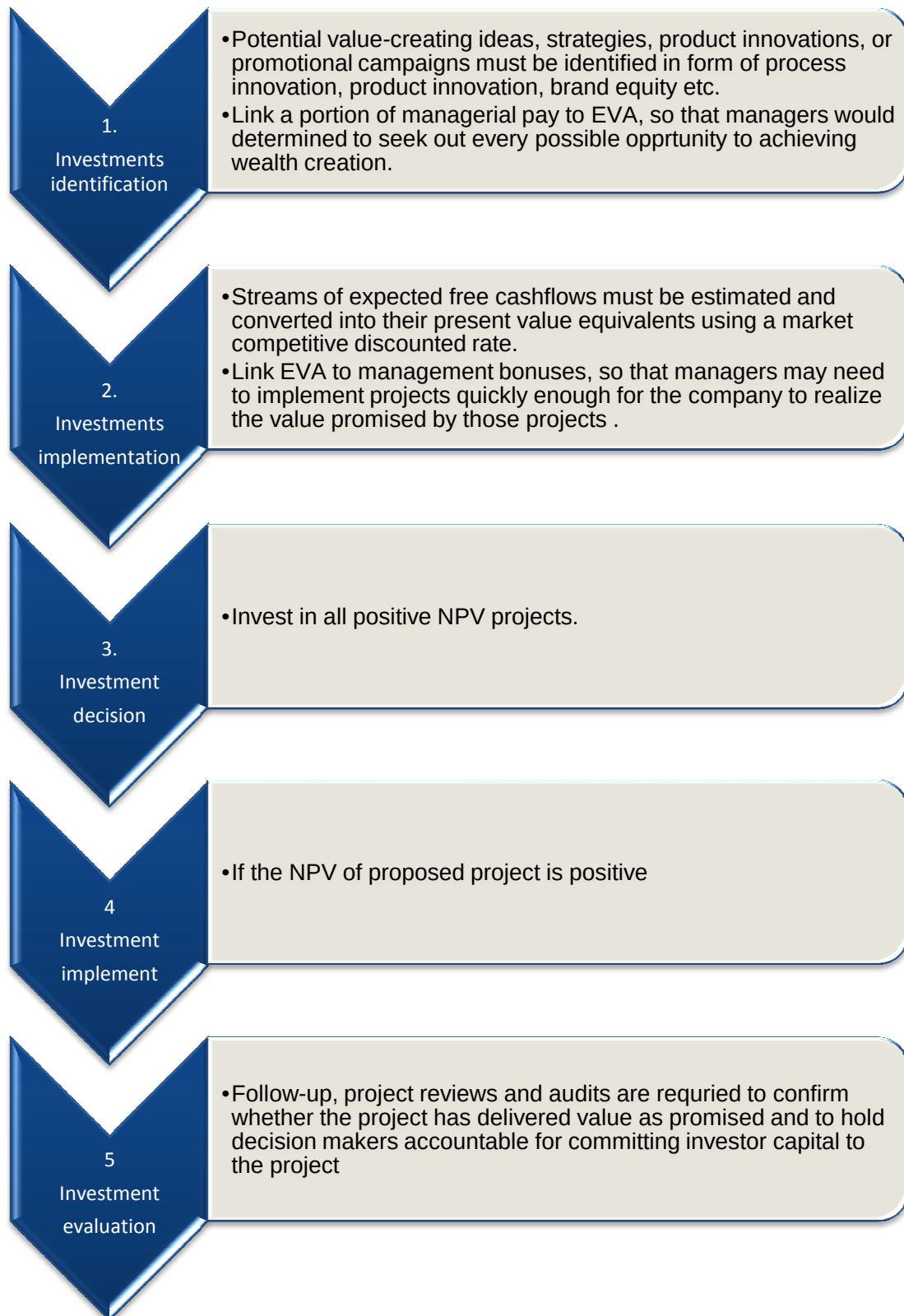
Source: Nenning, 2006, P7

Economic value added schema can be also aligned with the project capital allocation and investment implement process can be the indicator and this is the basis for the value-creating activities at the firm level, as figure 4.9 illustrates.

In conclusion, since the initial contract is incomplete, corporate governance systems are introduced to specify the distribution of residual risk and residual claims. There are three popular types of corporate governance systems around the world: Anglo-American Unitary Board Model, Continental European Two-tier Model and Japanese Business Network Model. Good corporate governance is vital to the competitiveness of the firm, the industry and the national competitiveness and social welfare. Economic Value Added (EVA) is chosen as the key indicator for the corporate governance system because it maps the whole value creating processes which cover all operating costs and all capital cost at various levels.

⁹⁶ Nenning, 2006, P7

Figure 4.9 Capital Allocation and Investment implement Process



Source: Illustrated by the author with the ideas from Yong & O'Byrne, 2001, P75-76

Chapter 5 Case Study: Value-based Management in Global Automobile Industry

5.1 Overview of Global Automobile Industry

In this chapter a case study in the global automobile industry is conducted to check the value-creating activities in practice. The reasons why the automobile industry is chosen are that: (1) it is one of the strategic industries in industrialized countries; (2) many modern management innovations and management tools are well received here (e.g. Value-based management, lean production, Just in time etc.); (3) it is a highly competitive and globalised industry at both the global and local levels, which means that the automobile Original Equipment Manufacturers (OEMs) face similar market conditions. As figure 5.1 and figure 5.2 illustrate, the automobile markets at global level are quite diversified and dynamic and there are various OEMs and brands in this industry.

Germany, USA and Japan are chosen as examples for the three different types of corporate governance systems in the chapter 4. The 3 countries are all famous for their automobile industry and are all among the world most competitive economic entities (see Appendix 1 World Competitiveness Scoreboard 2010 and Appendix 2 Global Competitiveness Index 2010–2011 (Top 60)).

The following automobile OEMs are chosen as examples based on their size and reputation (see Appendix 3 2010 Fortune Global 500 (Top 100) and Appendix 4 2011 World's Most Admired Companies):

Germany: Daimler AG, Volkswagen AG (VW) and BMW Group

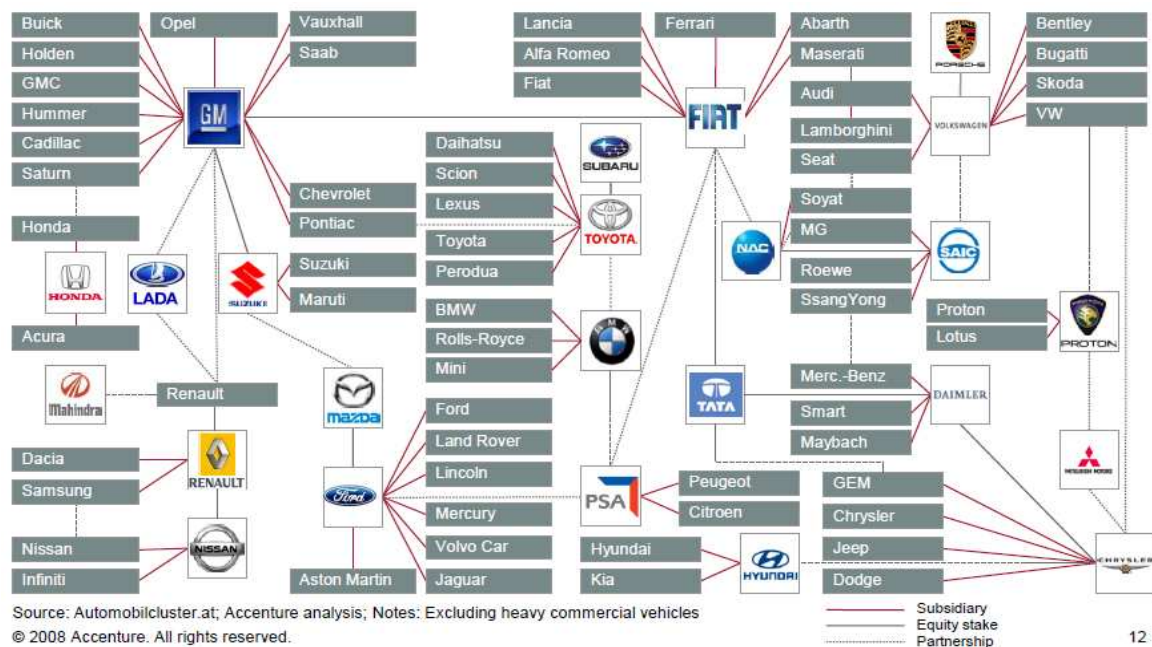
USA: General Motors (GM) and Ford Motors

Japan: Toyota Motors and Honda Motors

This case study will compare the shareholder structures, corporate governance systems and Economic Value Added of selected companies. However no judgment on the corresponding corporate governance systems

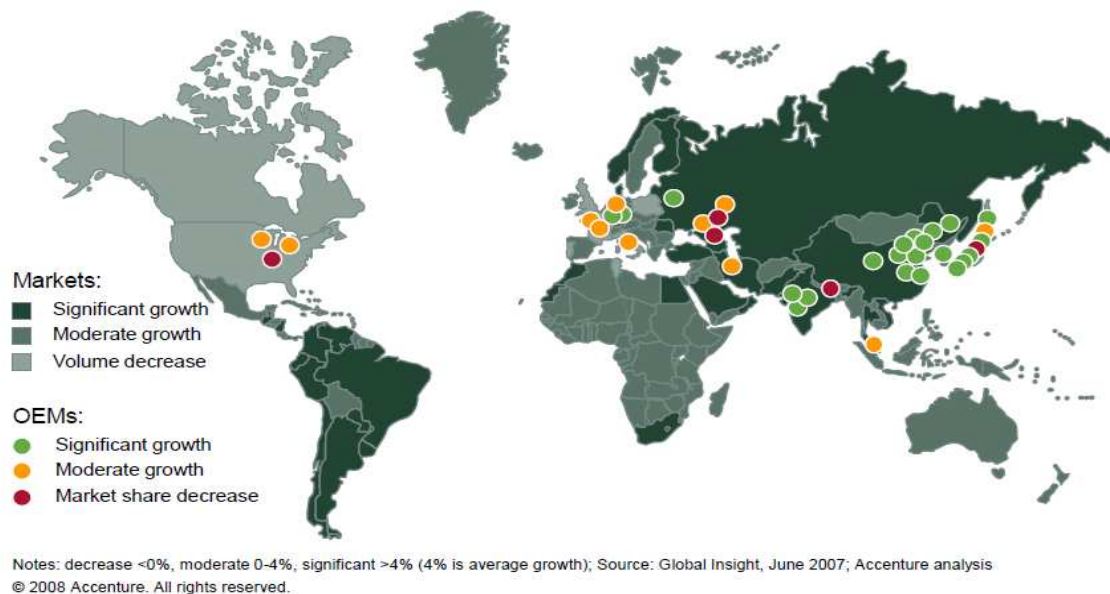
would be made, because (a) different corporate governance systems have different evolution histories and different economical, financial, juristical and cultural backgrounds; (b) the sample bases are limited to only one industry and seven OEMs.

Figure 5.1 Global Automobile Industry: OEMs, Brands and Relationships



Source: Matthias Wahrendorff, 2008, P12.

Figure 5.2 Global Automotive Landscape of Markets and Players (2002 –2006)



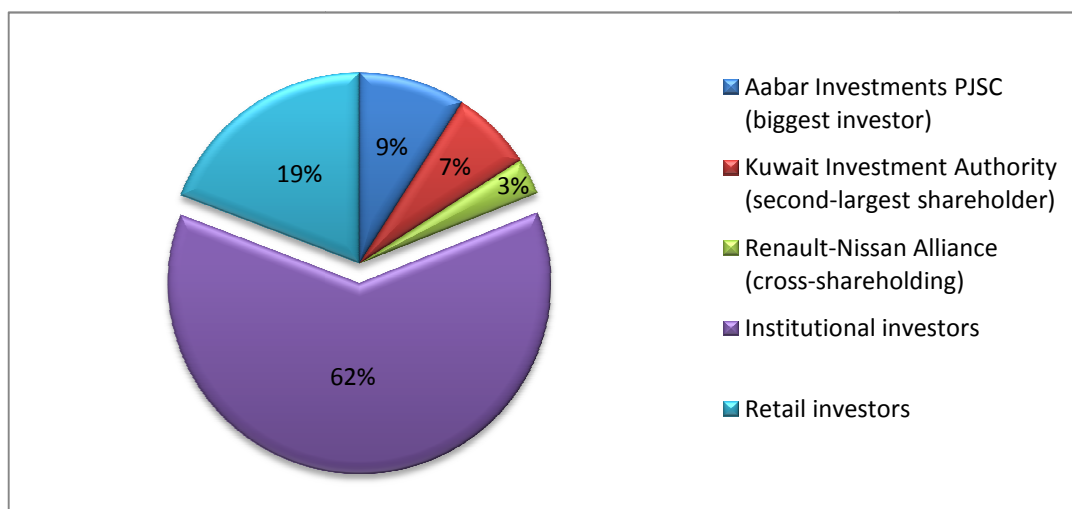
Source: Matthias Wahrendorff, 2008, P2.

5.2 Shareholder Structure and Control Rights

In this section, based on the shareholder structures, the voting rights and control rights distributions of different OEMs will be illustrated. Generally, “one share one voting right” prevails, if there are no specific rules.

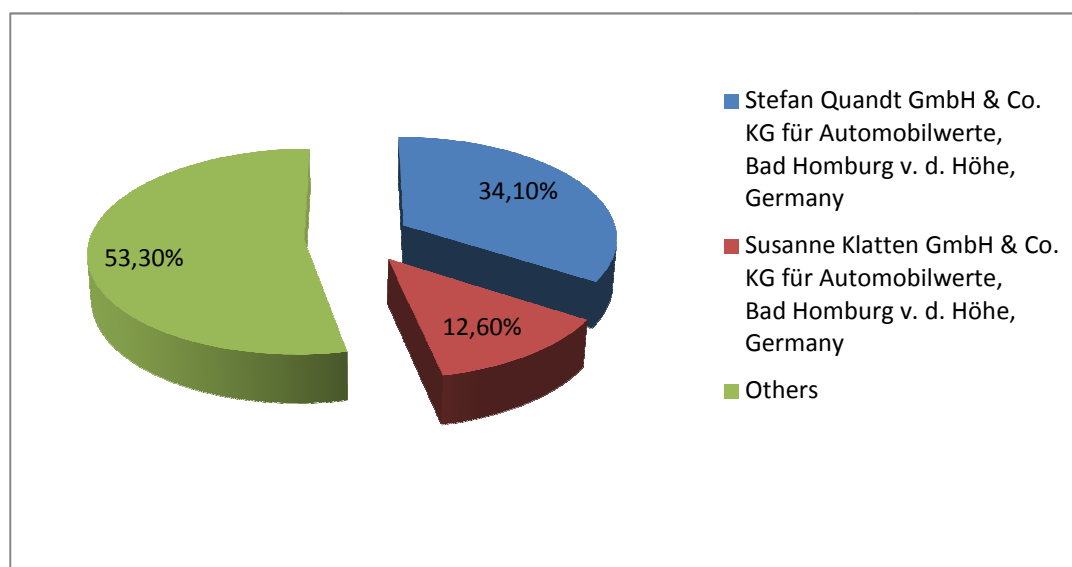
Among the three German OEMs, Daimler AG has an very international shareholder structure and a broad shareholder base of approximately 1 million shareholders and stable major shareholders, as illustrated in figure 5.3. In comparison to VW and BMW, Daimler has the most diversified shareholding structure with the biggest shareholder (Aabar Investment PJSC) holding 19% of the voting rights, as figure 5.3 shows. BMW has a relatively concentrated ownership structure, with the Quandt Family holding 1/3 voting rights as illustrated in Figure 5.4. VW has the most concentrated voting structure. Porsche as Group holds more than 50% of the voting rights, as figures 5.5 and 5.6 show. These results demonstrate that non-financial institutions are the main controlling owners of most German companies, as Table 3.1 and Table 3.2 illustrated.

Figure 5.3 Daimler AG Shareholder Structure as of December 31, 2010
by type of shareholders



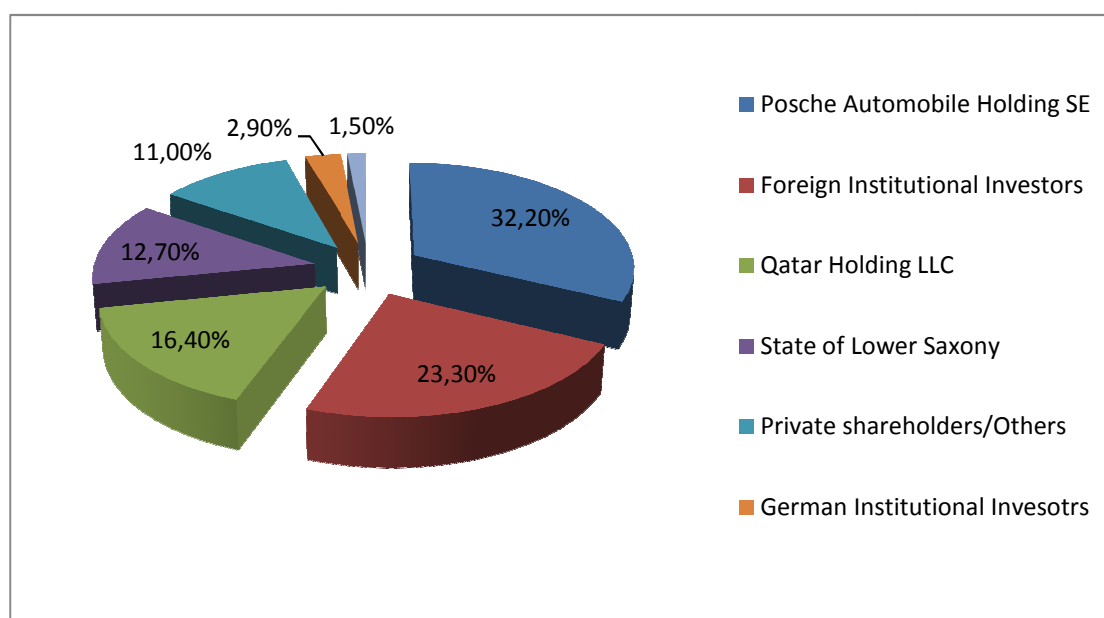
Source: Daimler Annual Report 2010, P24-25 (04.03.2011)

**Figure 5.4 BMW Group Shareholder Voting Rights structure
as of December 31, 2010**



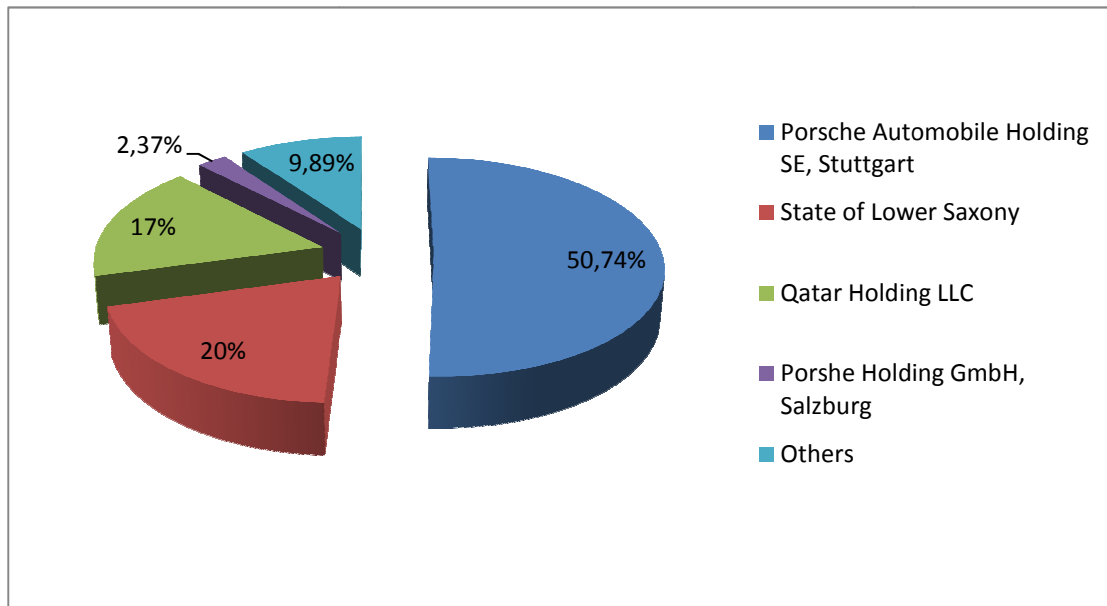
Source: BMW Annual Report 2010, P4. (18.03.2011)

**Figure 5.5 VW AG Shareholder structure as of December 31, 2010
by type of shareholders**



Source: Volkswagen AG Annual Report 2010. P160 (20.03.2011)

**Figure 5.6 VW AG Shareholder Voting Rights Structure
as of December 31, 2010 by type of shareholders**

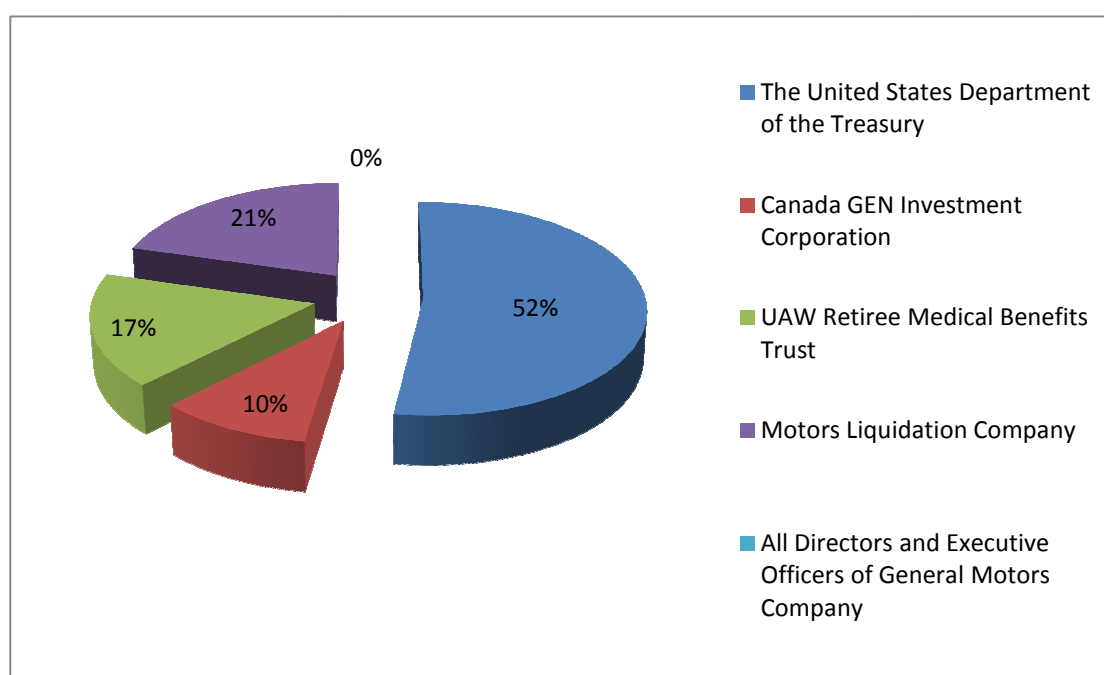


Source: Volkswagen AG Annual Report 2010. P160 (20.03.2011)

The ownership structures of the two largest American OEMs are very concentrated, less diversified as what Table 3.1 and Table 3.2 illustrate. However, I believe that Ford and GM are special cases. Ford has a unique ownership structure to preserve the Ford Family control. There are two kinds of shares in Ford, common stocks and Class B shares. Generally, Class B shares can only be held by Ford Family members and they revert to common stocks when they are sold outside Ford Family. As a result, “as long as they own a minimum number of Class B shares, the Ford family would retain 40% of the voting power”⁹⁷. As for GM, due to the economic crisis and the US government bailout, the US Department of Treasury owns even more than half of the shares, as figure 5.7 illustrates. In this sense, some critics call new GM the “Government Motors”.

⁹⁷ Andre F. Perold (2001), P3. As of February 2000, Ford had 1.15 billion common shares and 70.9 million Class B shares outstanding. The Ford family therefore retains 40% of the votes when it owns at least 60.7 million shares of Class B stock.

Figure 5.7 Shareholder Structure of General Motors as of 2009*



Shareholder Structure of General Motors as of 2009**	
	Percent of Common Stock
The United States Department of the Treasury	60,83%
Canada GEN Investment Corporation	11,67%
UAW Retiree Medical Benefits Trust	19,93%
Motors Liquidation Company	23,85%
All Directors and Executive Officers of General Motors Company	0,00%
Sum	116,28%

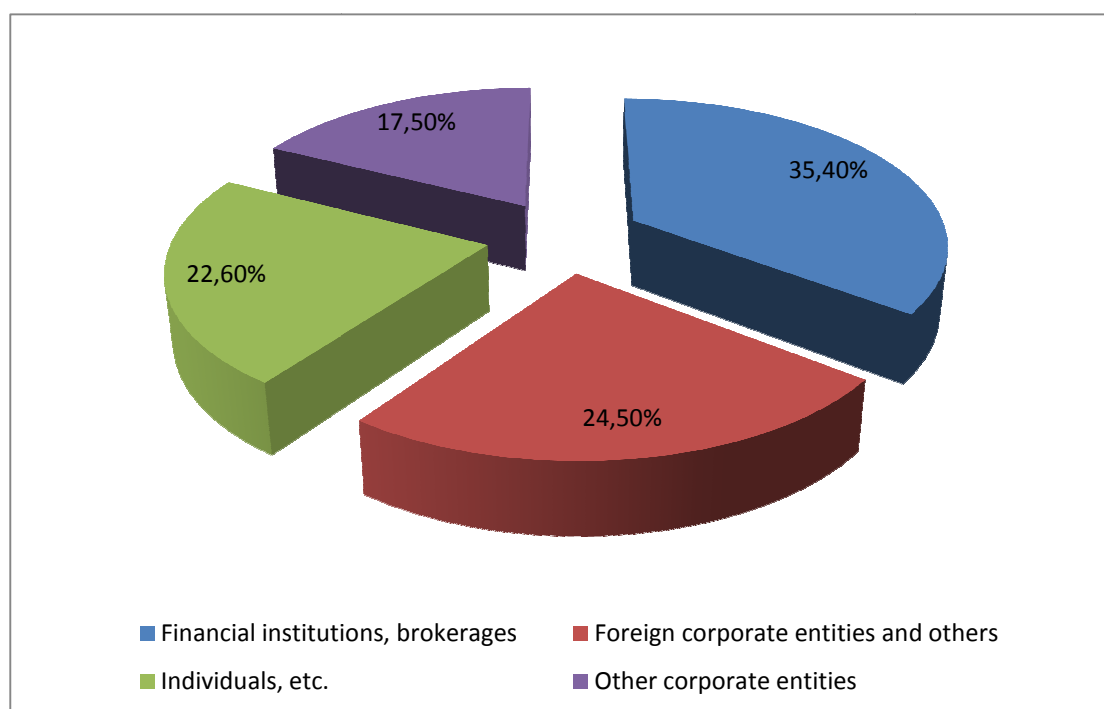
* The percentage shows the relative shareholder distribution based on the data from the table.

** "These percentages reflect the maximum potential percentage ownership of our common stock for each beneficial owner" (GM Annual Report 2009, P337)

Source: GM Annual Report 2009, P337. (18.03.2011)

The two Japanese OEMs are both listed on the Tokyo Stock Exchange, New York Stock Exchange and London Stock Exchange, and hence both own international shareholder bases. Financial institutions banks and insurance companies play very important roles, as figures 5.8 and 5.9 show.

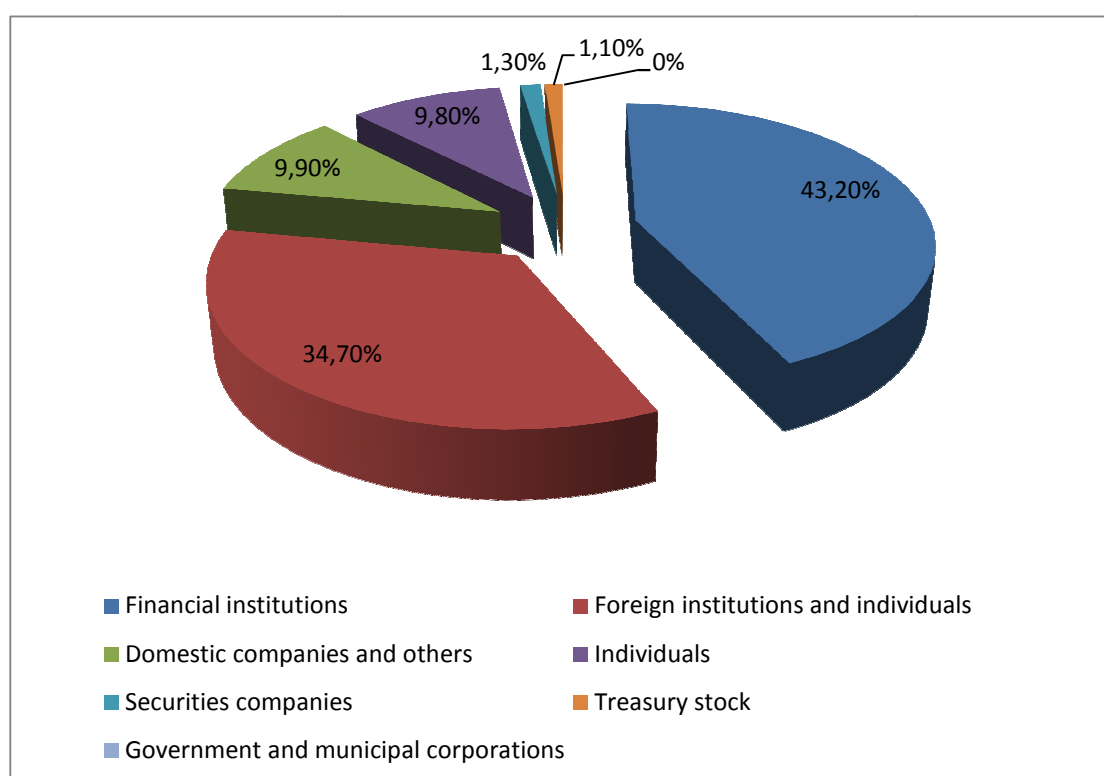
Figure 5.8 Shareholder Structure of Toyota Motors as of 2010



Major Shareholders (Top 10)	
Name	Number of Shares Held (Thousands)
Japan Trustee Services Bank, Ltd.	355,468
Toyota Industries Corporation	201,195
The Master Trust Bank of Japan, Ltd.	191,402
Nippon Life Insurance Company	130,469
State Street Bank and Trust Company	87,827
Trust & Custody Services Bank, Ltd.	86,649
The Bank of New York Mellon as Depositary Bank for Depositary Receipt Holders	79,850
Tokio Marine & Nichido Fire Insurance Co., Ltd.	77,431
Mitsui Sumitomo Insurance Company, Limited	65,166
DENSO Corporation	58,678

Source: Toyota Annual Report 2010, P61. (18.03.2011)

Figure 5.9 Shareholder Structure of Honda Motors as of 2010



Major Shareholders (Top 10)	
Name	Percentage of total shares outstanding
Japan Trustee Services Bank, Ltd. (Trust Account)	7,3%
The Master Trust Bank of Japan, Ltd. (Trust Account)	4,5%
JPMorgan Chase Bank 380055	4,0%
Moxley & Co.	3,9%
Tokio Marine & Nichido Fire Insurance Co., Ltd.	3,4%
Meiji Yasuda Life Insurance Company	2,8%
The Bank of Tokyo–Mitsubishi UFJ, Ltd.	2,0%
Mitsui Sumitomo Insurance Co., Ltd.	1,9%
Sompo Japan Insurance Inc.	1,9%
Nippon Life Insurance Company	1,9%

Source: Honda Annual Report 2010, P75. (18.03.2011)

5.3 Corporate Governance

In this section, Daimler AG, Ford Motors and Toyota Motors are chosen as examples for German, American and Japanese corporate governance structures accordingly.

Daimler AG

As illustrates in figure 5.10, there are mainly three blocks of governance bodies at Daimler: Annual Shareholders' Meeting, Supervisory Board and Board of Management.

There is generally a separation between the corporate management and supervision:

“Daimler AG is obliged by the German Stock Corporation Act to apply a dual management system featuring the strict separation of the two boards responsible for managing and supervising the company (two-tier board). With this system, the company's Board of Management is responsible for the executive functions, while the Supervisory Board monitors the Board of Management. No person may be a member of the two boards at the same time”⁹⁸.

Daimler's **Supervisory Board** comprises of 20 members, half of which are elected by the shareholders at the Annual Meeting and the other half are elected by the employees in Germany. The main functions of Supervisory Board are “appointing and recalling the members of the Board of Management deciding on and regularly reviewing the system of Board of Management remuneration, and determining the individual total remuneration of the members of the Board of Management”⁹⁹. There are four committees within the Supervisory Board:

1. Presidential Committee, which “makes recommendations to the Supervisory Board on the appointment of members of the Board of Management and is responsible for their contractual affairs”¹⁰⁰.
2. Nomination Committee, which “makes recommendations to the Supervisory Board concerning persons to be proposed for election as members of the Supervisory Board representing the shareholders at the Annual Shareholders' Meeting”¹⁰¹.

⁹⁸ Daimler's Corporate Bodies.

⁹⁹ Daimler Annual Report 2010, P161.

¹⁰⁰ Daimler Annual Report 2010, P162.

¹⁰¹ Daimler Annual Report 2010, P162.

3. Audit Committee, which “deals with questions of accounting and risk management, the internal monitoring system, internal auditing, compliance and the annual external audit”¹⁰².
4. Mediation Committee, which “makes proposals on the appointment of members of the Board of Management if in the first vote the majority required for the appointment of a Board of Management member of two thirds of the members of the Supervisory Board is not

Daimler’s **Board of Management** comprises of 7 members and is generally responsible for managing the group. It “prepares the consolidated interim reports, the annual company financial statements of Daimler AG and the annual consolidated financial statements”¹⁰⁴ and “is responsible for adherence to the provisions of applicable law, official regulations and the Group’s internal guidelines, and works to secure compliance with those rules and regulations by the companies of the Group”¹⁰⁵.

Shareholders can exercise their voting rights at **Annual Shareholders’ Meeting** based on “one share one vote” principal. The main functions of Annual Shareholders’ Meeting are to decide “on the appropriation of distributable profits, the ratification of the actions of the members of the Board of Management and the Supervisory Board, the election of the external auditors and the election of the members of the Supervisory Board representing the shareholders...(and) amendments to the Articles of Incorporation, capital measures, and the approval of certain intercompany agreements”¹⁰⁶.

Figure 5.10 Daimler’s Governance Structure

Shareholders (Annual Meeting of shareholders)
Election of shareholder representatives
Supervisory Board (10 shareholder and 10 employee representatives), Nomination Committee, Audit Committee, Presidential Committee, Mediation Committee
Appointments, monitoring, consulting
Board of Management (7 Board members)

Source: Daimler Annual Report 2010, P161. (04.03.2011)

¹⁰² Daimler Annual Report 2010, P162.

¹⁰³ Daimler Annual Report 2010, P163.

¹⁰⁴ Daimler Annual Report 2010, P163.

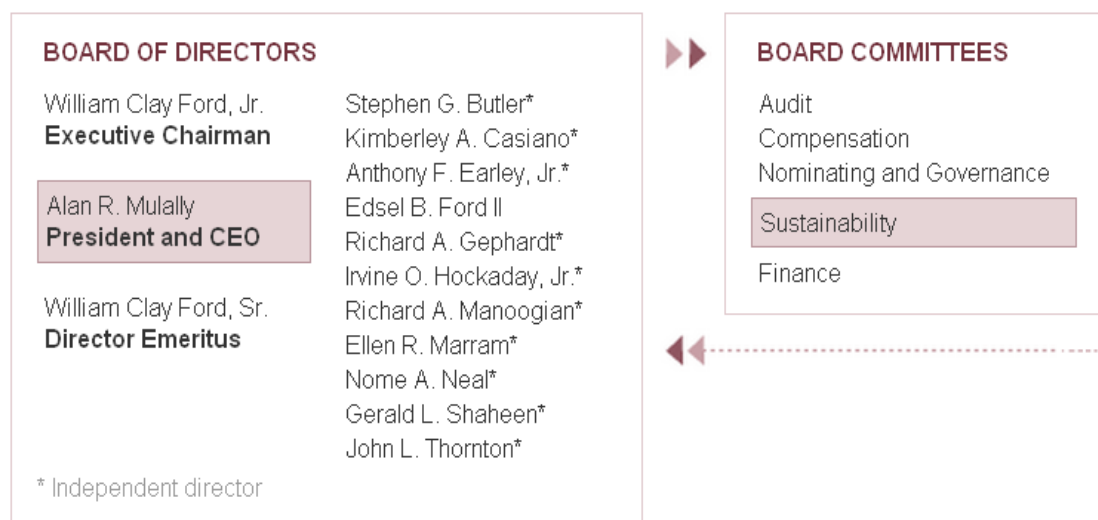
¹⁰⁵ Daimler Annual Report 2010, P163.

¹⁰⁶ Daimler Annual Report 2010, P160.

Ford Motors

Ford's Corporate Governance System comprises of Board of directors and Management, as figure 5.11 shows. The board of directors has 11 independent directors and five committees¹⁰⁷: (1) Audit, (2) Compensation, (3) Sustainability, (4) Finance, and (5) Nominating and Governance. The CEO and president are also on the board, which highlights a typical unitary board and outsider corporate governance structure. Typically "the Board of Directors monitors the performance of the CEO and senior management to assure that the long-term interests of the shareholders are being served"¹⁰⁸.

Figure 5.11 Ford Board-level Governance



Source: Ford Board-level Governance (18.03.2011)

TOYOTA MOTORS

Toyota's Corporate Governance System comprises of a Board of Directors, Management Officers and a non-board position of Managing Officers. The Board of Directors monitors Management Officers. In order to prompt decision making for developing global strategies and speeding up operations, the Senior Managing Directors serve as the highest authority of their specific operational functions and "as the link between management and on-site operations, instead of focusing exclusively on management"¹⁰⁹, while non-board Managing Officers implement the actual on-site operations. Moreover, there are in-house and external "committees and councils responsible for monitoring and discussing management and corporate activities from the

¹⁰⁷ Ford Corporate Governance Principles.

¹⁰⁸ Ford Corporate Governance Principles.

¹⁰⁹ Toyota Annual Report 2010, P24.

viewpoints of various stakeholders to ensure heightened transparency and the fulfilment of social obligations”¹¹⁰, as figure 5.12 illustrates.

Figure 5.12 TOYOTA’s Corporate Governance Structure



Source: Toyota Annual Report 2010, P25. (18.03.2011)

5.4 Value-based Management and Economic Value Added

According to their annual reports, all the firms selected in this case study emphasise that they are actively pursuing the enhancement of shareholders’ value. However, only the German firms are obviously trying to incorporate financial performance indicators like Value Added into performance measurement system and value-based management into their operations. For example, Volkswagen uses the measuring system of Economic Value Added from Stern Stewart & Co.:

“The Volkswagen Group’s financial target system centers on continuously and sustainably increasing the value of the Company. In order to use resources in the Automotive Division efficiently and to

¹¹⁰ Toyota Annual Report 2010, P24. (18.03.2011)

measure the success of this, we have been using value contribution, a control variable linked to the cost of capital, for a number of years...Value contribution is calculated using operating profit after tax and the opportunity cost of invested capital.”¹¹¹

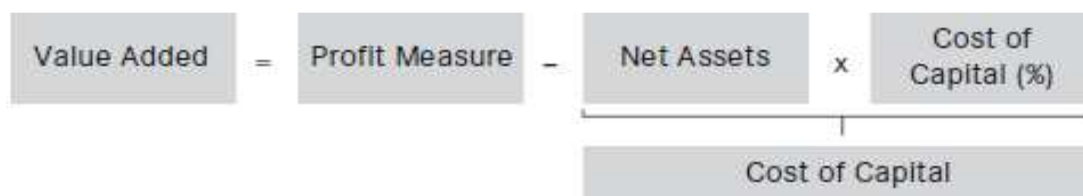
BMW Group is using Return On Capital Employed (ROCE) as the key performance indicator for Economic Value Added:

“Taking into account the interests and rights of capital providers represents the basis for value-based management within the BMW Group. Only companies generating profits on a sustainable basis that exceed the cost of equity and debt capital employed are capable of ensuring continuous growth, an increase in value for capital providers, jobs and, in the final analysis, corporate independence. As part of the process of developing the Group’s management system, “economic value added” has been introduced at Group level as a new key performance indicator. Value created represents a logical development of the method currently in use for managing the efficient use of capital based on the “return on capital employed”. ¹¹²

As a typical accounting indicator, the “Return on Capital Employed” (ROCE) uses the “Net Operating Profit before Interest Expense and Tax” (NOPBIT), of which the measurement basis is the capital employed. However, the disadvantage of this method is that only the operating assets are taken into consideration. Although BMW uses the ROCE only for automobile and motorcycle sectors while using another indicator Return on Equity (ROE) for the performance measurement for financial service sector, the total ROCE on the group level cannot be taken as the Economic Value Added in the sense of economical “Rents”, which has been mentioned previously in this paper.

Daimler AG is another typical group which is using Economic Value Added as the basis of its value-based management, as figure 5.13 illustrates.

Figure 5.13 Value Added at Daimler AG



Source: Daimler Annual Report 2010, P77. (04.03.2011)

Key indicator of profit measurement at Daimler’s group level is the Net Operating Profit After Tax (NOPAT):

¹¹¹ Volkswagen AG Annual Report 2010. P176.177.

¹¹² BMW Annual Report 2010, P49.

“The operational profit measure at divisional level is EBIT (earnings before interest and taxes) ...The operational profit measure used at Group level is net operating profit. It comprises the EBIT of the divisions and profit and loss effects that the divisions are not held responsible for, including results from discontinued operations, income taxes and other reconciliation items”¹¹³.

As for the invested capital, Daimler uses the concept of Net Assets at group level, which “include the net assets of the industrial divisions and the equity of Daimler Financial Services, as well as the net assets from discontinued operations, income taxes and other reconciliation items for which the divisions are not held accountable”¹¹⁴. This is a bit different from the definition of invested capital in the sense of standard Economic Value Added calculation. In the following calculation, this will be adjusted by using the typical invested capital, which equals total assets less current liabilities.

Daimler also uses the standard Weighted Average Cost of Capital (WACC) approach based on the Capital Asset Pricing Model (CAPM), which “comprises the cost of equity as well as the costs of debt and pension obligations of the industrial business”¹¹⁵.

In the following section, the Economic Value Added of the all selected companies from 2001-2010 will be calculated and analysed. All the accounting data comes originally from the corresponding companies’ annual reports from 2001 to 2010. The Economic Value Added (EVA) of different companies are then calculated according to the method provided in table 5.1. The individual results are illustrated in following figures 5.15 – 5.21. However the comparison of these results is not intended to make judgment on which corporate governance system is the best one.

¹¹³ Daimler Annual Report 2010, P77.

¹¹⁴ Daimler Annual Report 2010, P77.

¹¹⁵ Daimler Annual Report 2010, P77.

Table 5.1 Template for Calculating Economic Value Added

Operating Income
 + Interest income
 + Equity income (or - equity loss)
 + Other Investment Income
 - Income taxes
 + Tax shield on interest expense
= Net Operating Profit After Tax (NOPAT)

Short-term debt
 + Long-term debt (including bonds)
 + Other long-term liabilities (deferred taxes and provisions)
 + Shareholders' equity (including minority interest)
= Invested Capital (IC)
 Average IC = (ICbeg + ICend)/2

Or
 Total Assets
 - Short-term, non-interest-bearing liabilities (current liabilities)
= Invested Capital (IC)

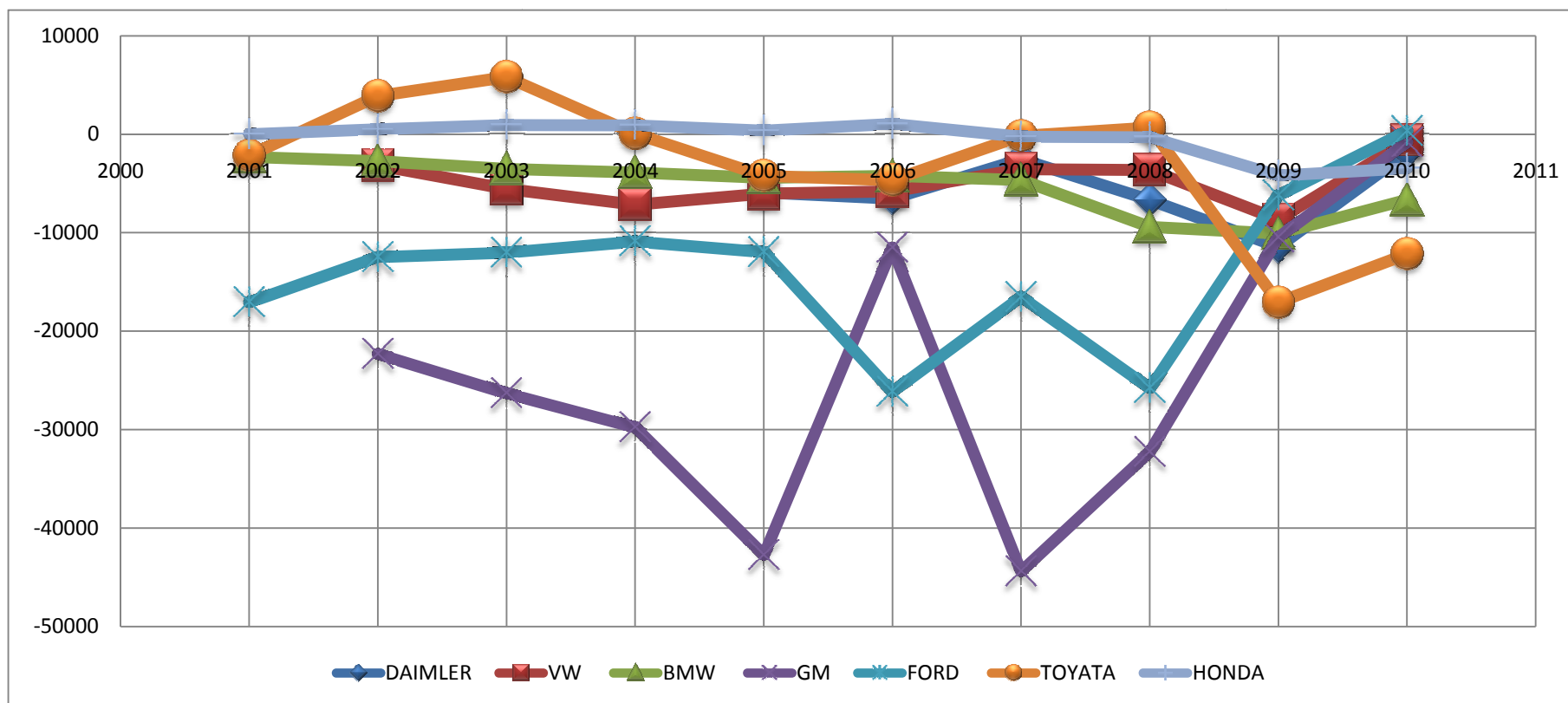
NOPAT
 - Capital Charges (Average IC*WACC)
= EVA

Source: Yong & O'Byrne, 2001, P54-55.

In conclusion, value based corporate governance systems are popular among the main automobile manufactures in German, Japan and USA. Japan automobile companies generally outperformance German and American ones, especially before the Economic Crisis of 2007-2010. GM and Ford have destroyed much value according to Economic Value Added schema, which is one of the reasons why American automobile firms nearly went to bankruptcy during the crisis. German automobile firms perform moderate and steady, and they are now marching for the position of best performers. However, according to the more rigid Economic Value Added calculation, there are still big potentials for at least the main players in global automobile industry to create more value for their shareholders. This paper maps the current value creating status in the automobile industry and hope that more and more companies can really find their real position and take actions to create more value for shareholders, and also the stakeholders. In anyway, the value based corporate governance is one good choice.

Figure 5.14 Economic Value Added of World Top Automobile OEMs

(2001 - 2010) (Amounts in millions of USD)¹¹⁶

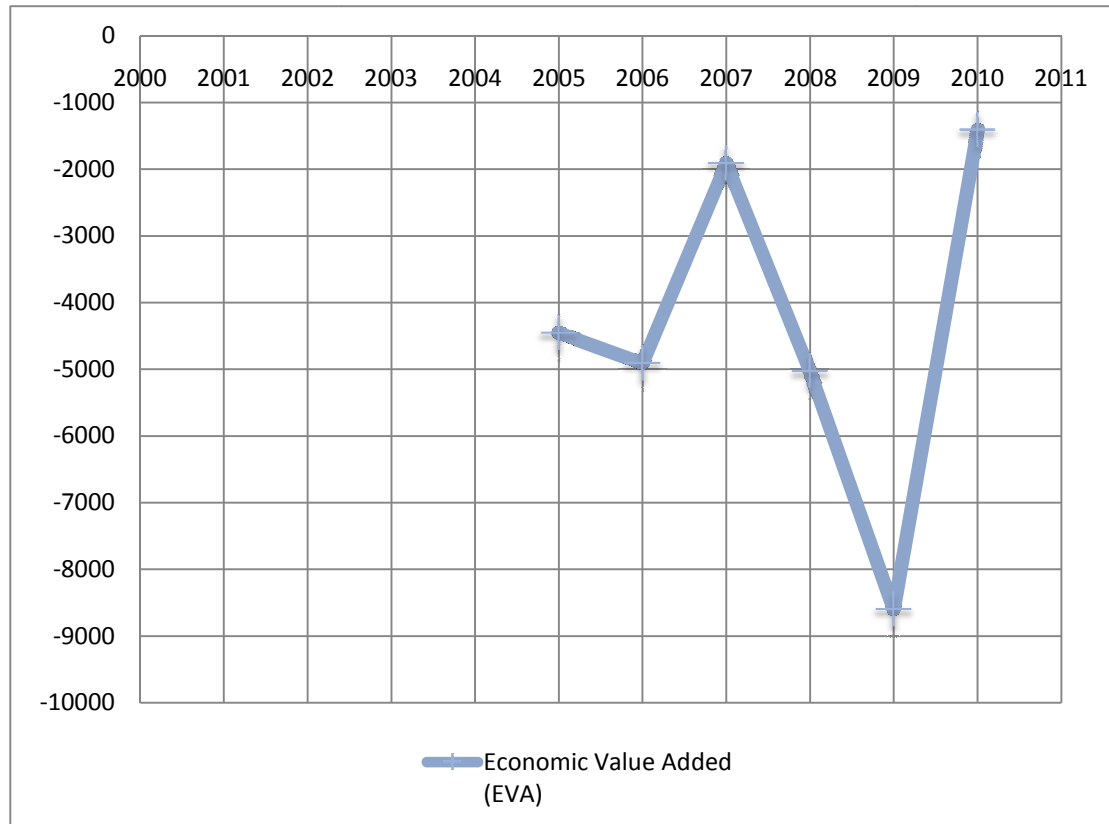


	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
DAIMLER					-5933	-6536	-2544	-6694	-11444	-1882
VW		-3147	-5568	-7154	-6030	-5801	-3543	-3639	-8667	-653
BMW	-2305	-2724	-3514	-3889	-4439	-4238	-4644	-9424	-10100	-6659
GM		-22343	-26320	-29788	-42765	-11545	-44422	-32285	-10495	-836
FORD	-17077	-12494	-12045	-10901	-11985	-26176	-16559	-25810	-6230	305
TOYATA	-2164	3874	5807	60	-4218	-4671	-184	683	-17096	-12175
HONDA	-2	502	928	910	361	1036	-246	-312	-4192	-3468

¹¹⁶ Exchange Rate: EURO/USD=1,33, based on the 2010 Monthly Average EURO/USD Exchange Rate according to <http://www.x-rates.com/d/USD/EUR/hist2010.html> and Exchange rate: USD/Yen=112, based on the ten year average USD/YEN exchange rate HONDA Annual Report 2010, P6.

Figure 5.15 Daimler AG: Economic Value Added (EVA) (2005 - 2010)

(Amounts in millions of Euros)



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Net Operating Profit After Tax (NOPAT)*	332	6116	1467	3165	4834	4032	4123	1370	-2102	5120
Weighted Average Cost of Capital (WACC)	9,2%	8,0%	8,0%	8,0%	7,0%	7,0%	7,0%	8,0%	8,0%	8,0%
Invested Capital**					132780	127802	86228	80043	81283	81691
Economic Value Added (EVA)					-4.461	-4.914	-1.913	-5.033	-8.605	-1.415

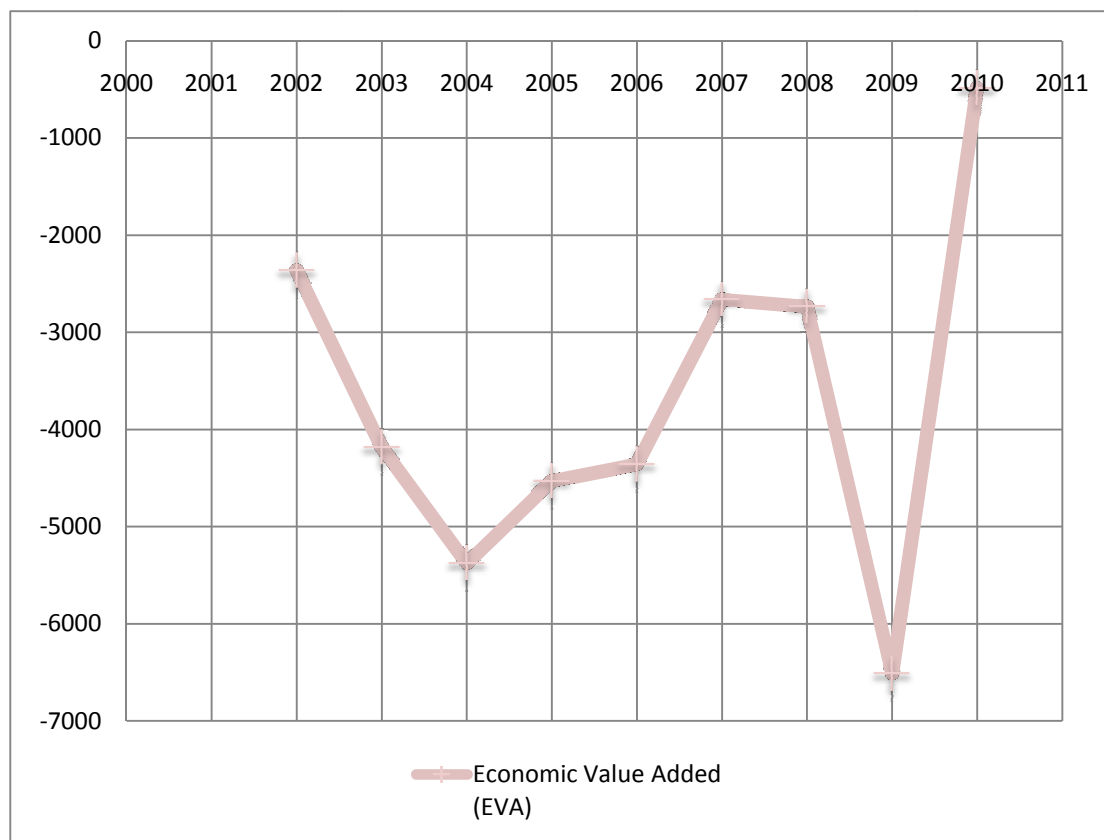
* Net Operating Profit After Tax (NOPAT) = Net operating profit (loss)

** Invested Capital = Total Assets - Current liabilities

Source: Daimler Annual Report 2010, P77-79, P248-249. (04.03.2011); Daimler Annual Report 2002, P80. (08.03.2011); Daimler Annual Report 2003, P101. (08.03.2011); Daimler Annual Report 2005, P58. (08.03.2011); Daimler Annual Report 2007, P58. (08.03.2011); Daimler Annual Report 2007, P77. (04.03.2011)

Figure 5.16 VW AG: Economic Value Added (EVA) (2001 - 2010)

(Amounts in millions of Euros)



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Net Operating Profit After Tax (NOPAT)*		2597	1003	697	1050	1955	4122	4688	911	7226
Weighted Average Cost of Capital (WACC)		7,70%	7,40%	7,70%	7,00%	7,60%	7,60%	7,20%	6,90%	6,30%
Invested Capital**		64461	70133	78911	79772	83118	89289	103117	107644	122493
Economic Value Added (EVA)		-2.366	-4.187	-5.379	-4.534	-4.362	-2.664	-2.736	-6.516	-491

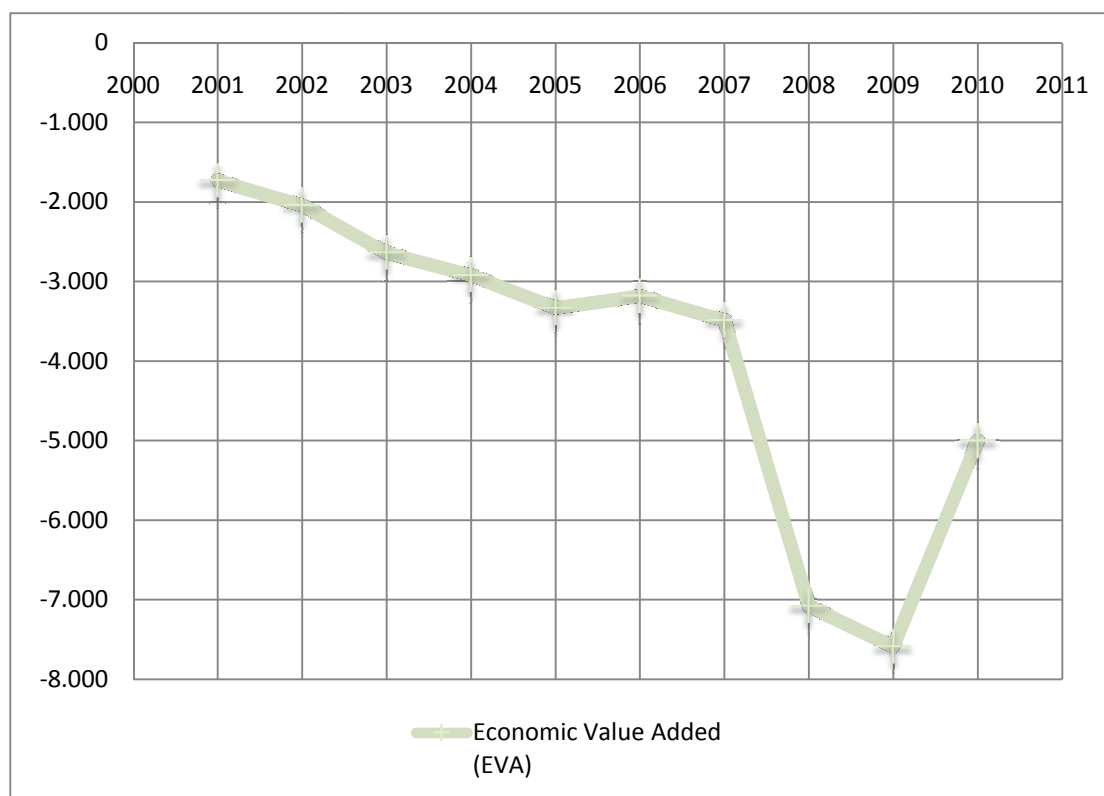
* Net Operating Profit After Tax (NOPAT) = Profit After Tax (2006-2010); Net Operating Profit After Tax (NOPAT) = Profit from continuing operating (2002-2005)

** Invested Capital = Total equity and liabilities - Current liabilities

Source: Volkswagen AG Annual Report 2010. P175-177.(18.03.2011); Volkswagen AG Annual Report 2008. P142-143. (18.03.2011); Volkswagen AG Annual Report 2006. P81.(18.03.2011); Volkswagen AG Annual Report 2004. P46. (18.03.2011); Volkswagen AG Annual Report 2002. P46. (18.03.2011).

Figure 5.17 BMW Group: Economic Value Added (EVA) (2001 - 2010)

(Amounts in millions of Euros)



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Net Operating Profit After Tax (NOPAT)	1866	2020	1947	2242	2239	2874	3134	330	210	3234
Weighted Average Cost of Capital (WACC)*	12,0%	12,0%	12,0%	12,0%	12,0%	12,0%	12,0%	12,0%	12,0%	12,0%
Invested Capital**	51259	55511	61475	67634	74556	79057	88997	101086	101953	108807
Economic Value Added (EVA)	-4.285	-4.641	-5.430	-5.874	-6.708	-6.613	-7.546	-11.800	-12.024	-9.823

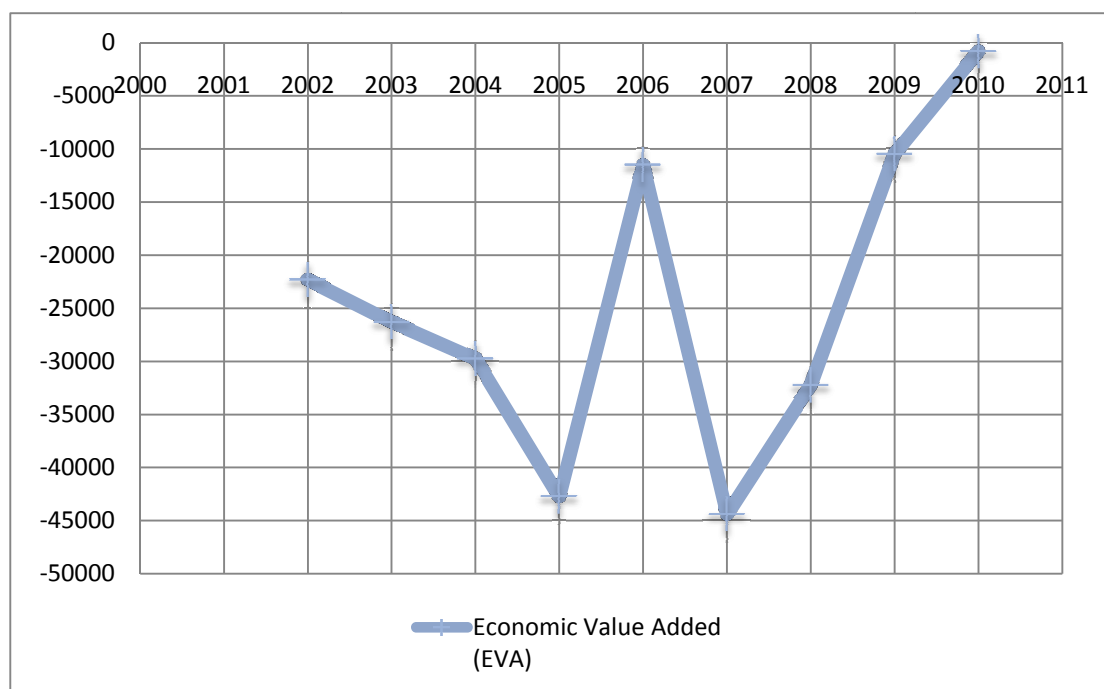
* Since the costs of capital of BMW Group from 2001 to 2007 are not directly available, I just take the average cost of capital of 2009 and 2010 as the standard WACC.

** Invested Capital = Equity + Non-current provisions and liabilities = Total Balance Sheet - Current Provisions and Liabilities

Source: BMW Annual Report 2010, P49, P168-169-249. (18.03.2011).

Figure 5.18 GENERAL MOTORS: Economic Value Added (2002 - 2010)

(Amounts in millions of USD)



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Net Operating Profit After Tax (NOPAT)*	601	1.736	3.859	2.804	-10.308	-1.978	-38.136	-31.051	-3.786	6.503
Weighted Average Cost of Capital (WACC)**	8,0%	8,0%	8,0%	8,0%	8,0%	8,0%	8,0%	8,0%	8,0%	8,0%
Invested Capital***		300982	377243	407400	405712	119587	78575	15431	83860	91741
Economic Value Added (EVA)		-22.343	-26.320	-29.788	-42.765	-11.545	-44.422	-32.285	-10.495	-836

* NOPAT = Net income (loss)

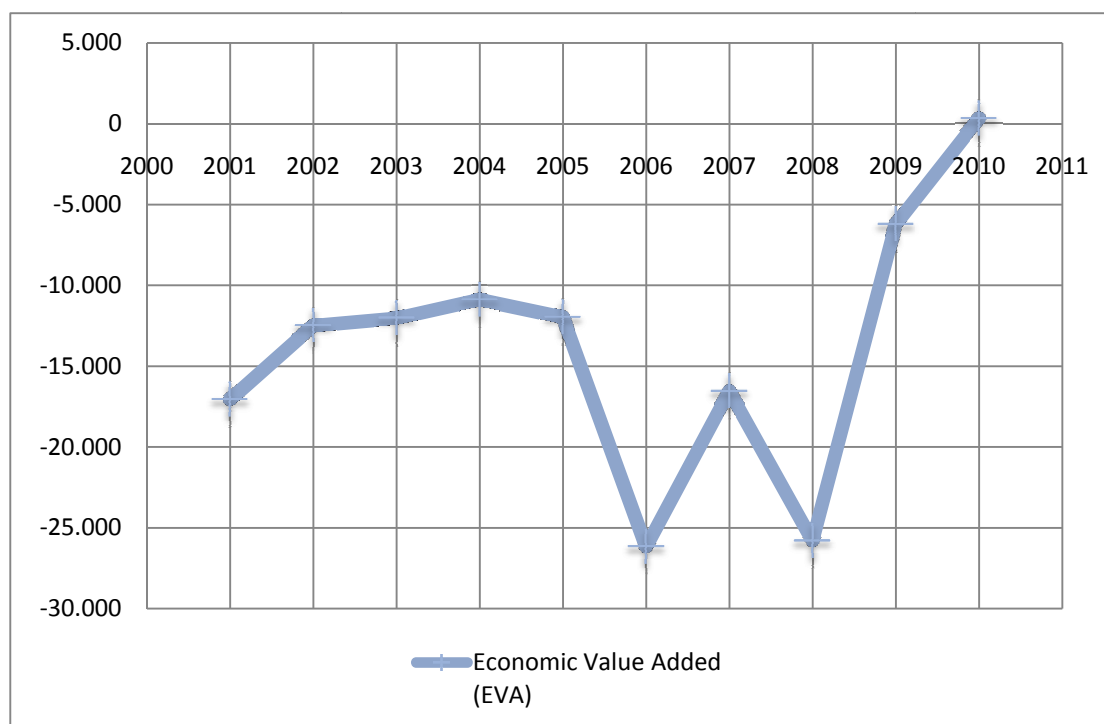
** GM "used discount rates ranging from 16.5% to 23.5% and a weighted-average rate of 22.8%" (GM Annual Report 2010, P125)

*** Invested Capital = Total liabilities and equity

Source: GM Annual Report 2010, P148-149. (18.03.2011); GM Annual Report 2009, P122-123. (18.03.2011); GM Annual Report 2007, P84-85. (18.03.2011); GM Annual Report 2005, P100-103. (18.03.2011); GM Annual Report 2003, P58-60. (18.03.2011).

Figure 5.19 FORD MOTOR: Economic Value Added (EVA) (2001 - 2010)

(Amounts in millions of USD)



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Net Operating Profit After Tax (NOPAT)*	-5.453	-980	495	3.487	1.440	-12.617	-2.495	-14.766	3.844	6.561
Weighted Average Cost of Capital (WACC)**	8,0%	8,0%	8,0%	8,0%	8,0%	8,0%	8,0%	8,0%	8,0%	8,0%
Total debt	137517	138333	145094	162418	153248	169949	167018	152577	132441	68000
Total equity	7786	5590	11651	17437	14565	-461	8783	-14527	-6515	10200
Invested Capital***	145303	143923	156745	179855	167813	169488	175801	138050	125926	78200
Economic Value Added (EVA)	-17.077	-12.494	-12.045	-10.901	-11.985	-26.176	-16.559	-25.810	-6.230	305

* NOPAT = Net income/ (loss) attributable to Ford Motor Company

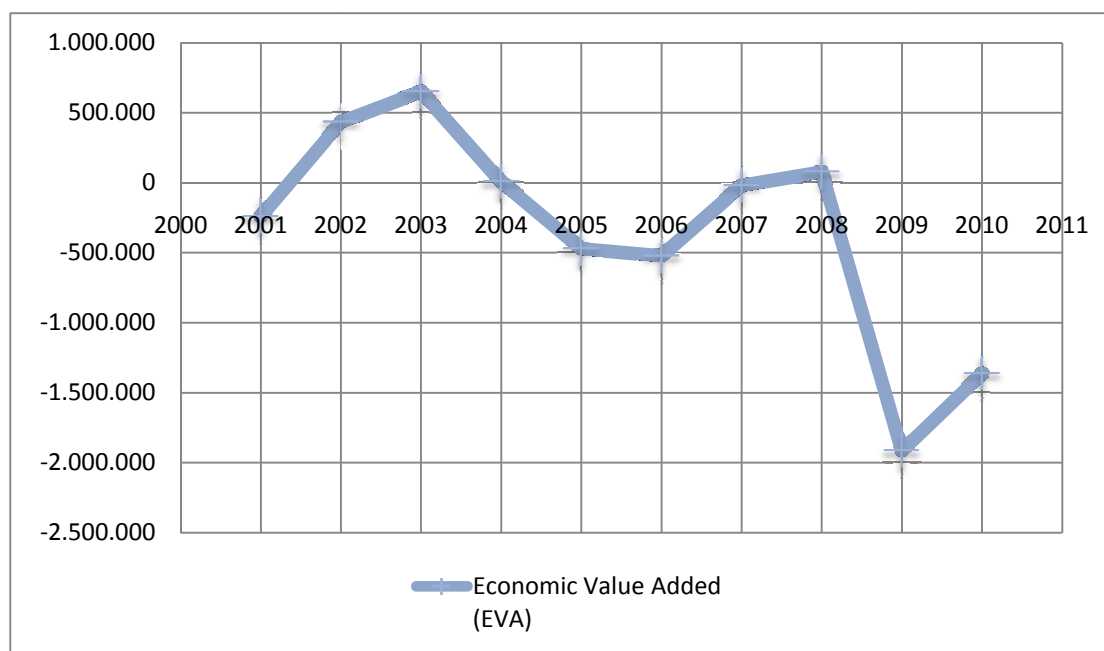
** WACC of FORD not available in annual report. According to http://www.editgrid.com/user/wikiwealth/Wiki_Wealth_Data- All_WACC, Ford's WACC is 8%. (18.03.2011)

*** Invested Capital = Total debt + Total equity (2004-2010); Invested Capital = Total long-term debt + Shareholder's equity (2001-2003), current liabilities are not available.

Source: FORD 2010 Fourth Quarter and Full Year Earnings Review and 2011 Outlook, P3, P54. (18.03.2011); Ford Annual Report 2009, P169. (18.03.2011); Ford Annual Report 2005, P103. (18.03.2011)

Figure 5.20 TOYOTA MOTOR: Economic Value Added (2001 - 2010)

(Amounts in millions of YEN)



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Net Operating Profit After Tax (NOPAT)*	674.898	556.567	750.942	1.162.098	1.171.260	1.372.180	1.644.032	1.717.879	-436.937	209.456
Weighted Average Cost of Capital (WACC)**	8,0%	8,0%	8,0%	8,0%	8,0%	8,0%	8,0%	8,0%	8,0%	8,0%
Invested Capital***	11466496	1533762	1257026	14442237	20545508	23691537	20807609	20517578	18472744	19663073
Economic Value Added (EVA)	-242.422	433.866	650.380	6.719	-472.381	-523.143	-20.577	76.473	-1.914.757	-1.363.590

* NOPAT = Net Income (Loss) attributable to Toyota Motor Corporation

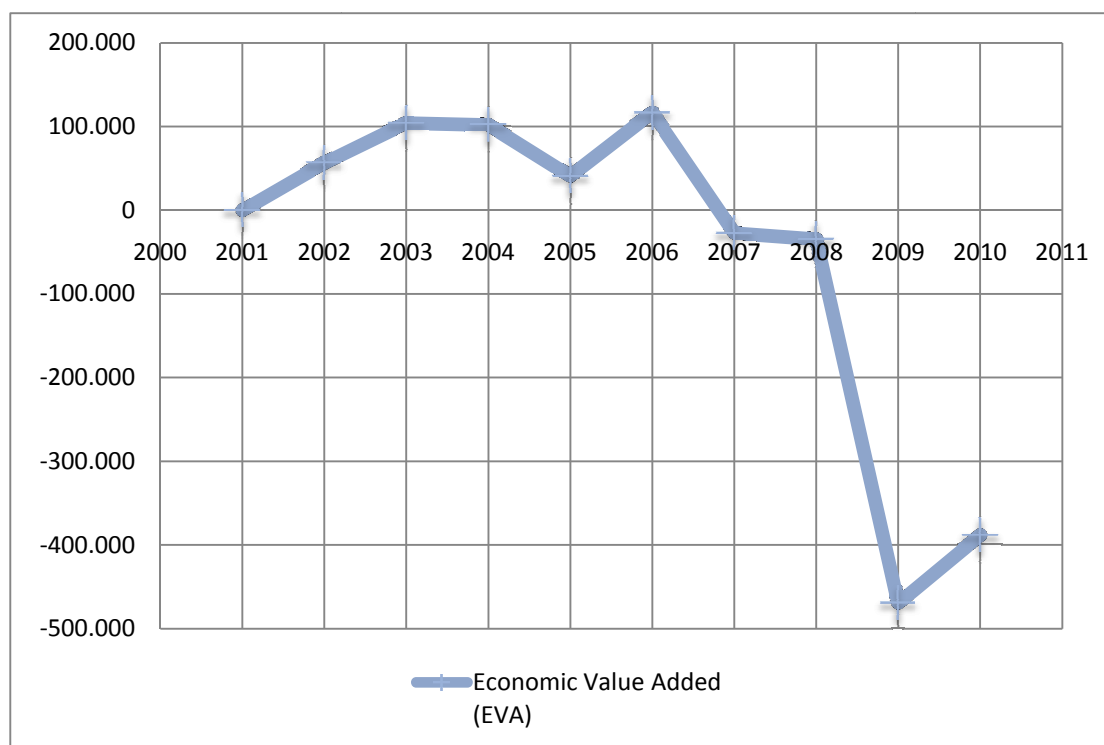
** WACC of Toyota, not available in annual report. According to http://www.editgrid.com/user/wikiwealth/Wiki_Wealth_Data-_All_WACC (18.03.2011)

*** Invested Capital = Total liabilities and shareholders' equity – Total current liabilities

Source: Toyota Annual Report 2010, P33, P61. (18.03.2011); Toyota Annual Report 2008, P93. (18.03.2011); Toyota Annual Report 2006, P128. (18.03.2011); Toyota Annual Report 2005, P77. (18.03.2011); Toyota Annual Report 2003, P51. (18.03.2011); Toyota Annual Report 2001, P55. (18.03.2011).

Figure 5.21 HONDA MOTOR: Economic Value Added (EVA) (2001 - 2010)

(Amounts in millions of YEN)



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Net Operating Profit After Tax (NOPAT)*	232.241	362.707	426.662	464.338	486.197	597.033	592.322	600.039	137.005	268.400
Weighted Average Cost of Capital (WACC)**	8,0%	8,0%	8,0%	8,0%	8,0%	8,0%	8,0%	8,0%	8,0%	8,0%
Invested Capital***	2906152	3830736	4034753	4530787	5572657	6012089	7748973	7936993	7581549	8209985
Economic Value Added (EVA)	-251	56.248	103.882	101.875	40.384	116.066	-27.596	-34.920	-469.519	-388.399

* NOPAT = Net income/ (loss) attributable to Honda Motor Company

** WACC of Honda not available in annual report. According to http://www.editgrid.com/user/wikiwealth/Wiki_Wealth_Data-_All_WACC (18.03.2011)

*** Invested Capital =Total liabilities + Total equity - Total current liabilities

Source: HONDA Annual Report 2010, P6, P57. (18.03.2011); HONDA Annual Report 2008, P63. (18.03.2011); HONDA Annual Report 2007, P4. (18.03.2011); HONDA Annual Report 2006, P64. (18.03.2011); HONDA Annual Report 2005, P103. (18.03.2011); HONDA Annual Report 2004, P3. (18.03.2011); HONDA Annual Report 2003, P50. (18.03.2011); HONDA Annual Report 2002, P35. (18.03.2011); HONDA Annual Report 2001, P103. (18.03.2011).

Chapter 6 Conclusion

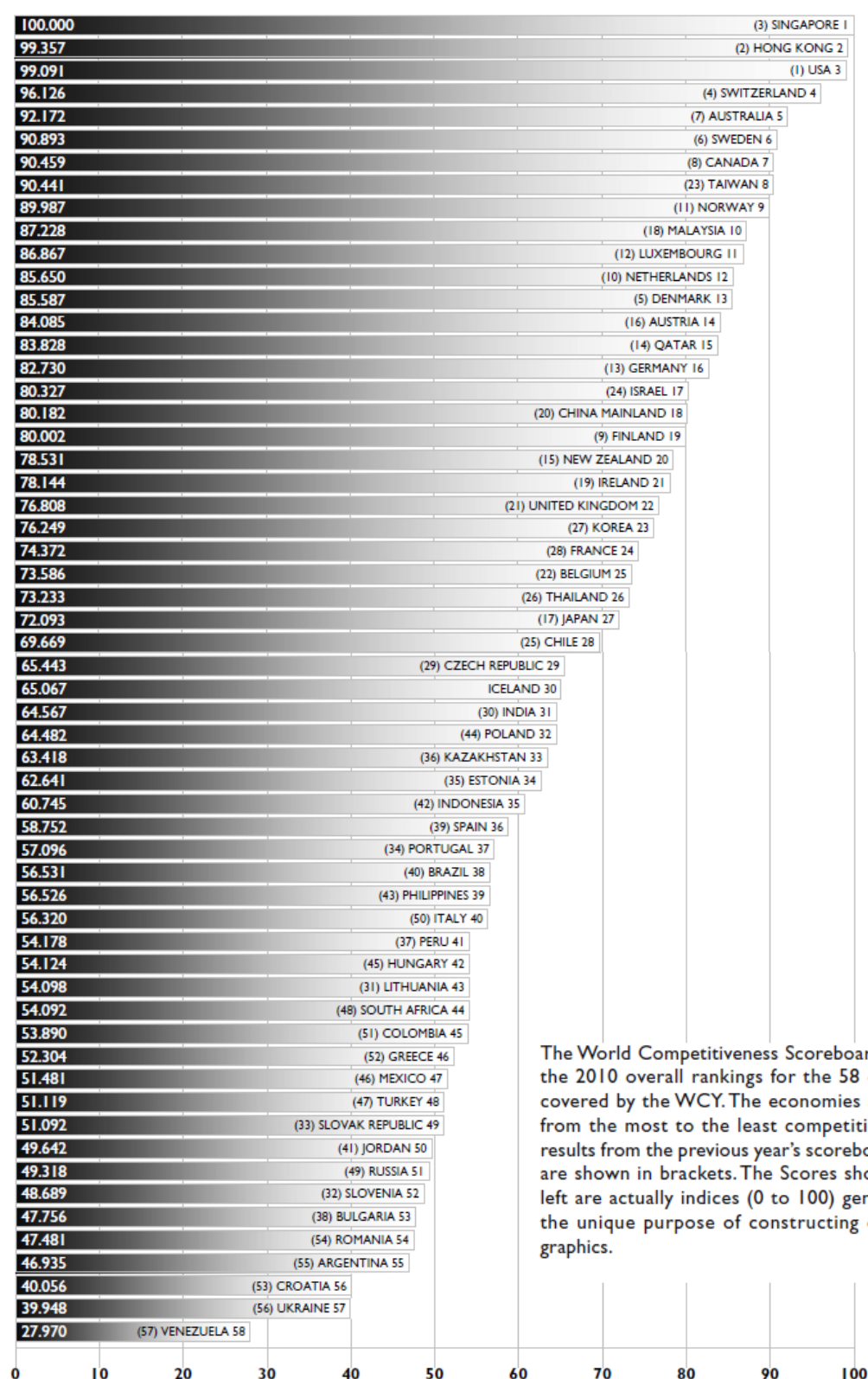
The main topic of this paper is the analysis of the distribution of control rights, Economic Value Added and value based corporate governance. The main conclusions are:

- (1) the division of knowledge assets leads to the separation of ownership and control, which induces the agency problem;
- (2) based on the incomplete contract view and shareholder's perspective, corporate governance is a complex set of constraints that shape the ex post bargaining over the residual claims and residual risk, which cannot be fully arranged in the initial contract but can be done by allocating residual control rights among the shareholders and management ex ante or contingently;
- (3) the main task of corporate governance is to align the managerial interests with those of shareholders and encourage the managers to create additional value.
- (4) Economic Value Added (EVA) can be used to control and measure value creation activities at project, department and firm levels;
- (5) different corporate governance systems have different roots in their unique economic, cultural, legal and political conditions, as well as their own evolution history, thus making it hard to compare which one is the best;
- (6) the case study of economic value added activities in the global automobile industry shows that many companies are using value based corporate governance systems, however there are still room for enhancing value creating capabilities;
- (7) In the sense of opportunity cost, Economic Value Added (EVA) approach try to cover all operating costs and all capital cost, which poses bigger challenge for managers. However, Economic Value Added can help managers to set higher value added targets when they make decisions on investment and other value-added activities.

The case study is not in the position to illustrate a quantitative relationship between control rights, corporate governance and economic value added,

because the sample base is relatively small and some variants such as efficiency of corporate governance systems and culture differences are difficult to measure, which opens to further academic research.

Appendix 1 World Competitiveness Scoreboard 2010



The World Competitiveness Scoreboard presents the 2010 overall rankings for the 58 economies covered by the WCY. The economies are ranked from the most to the least competitive and the results from the previous year's scoreboard (2009) are shown in brackets. The Scores shown to the left are actually indices (0 to 100) generated for the unique purpose of constructing charts and graphics.

Source: the World Competitiveness Scoreboard 2010, (2010, 2011)
<http://www.imd.org/research/publications/wcy/upload/scoreboard.pdf> (09.01.2011)

Appendix 2 Global Competitiveness Index 2010–2011 (Top 60)

Country/Economy	SUBINDEXES							
	OVERALL INDEX		Basic requirements		Efficiency enhancers		Innovation and sophistication factors	
	Rank	Score	Rank	Score	Rank	Score	Rank	Score
Switzerland	1	5.63	1	6.05	4	5.41	2	5.71
Sweden	2	5.56	3	5.98	5	5.32	3	5.67
Singapore	3	5.48	2	6.05	1	5.49	10	5.07
United States	4	5.43	32	5.21	3	5.46	4	5.53
Germany	5	5.39	6	5.89	13	5.11	5	5.51
Japan	6	5.37	26	5.35	11	5.17	1	5.72
Finland	7	5.37	4	5.97	14	5.09	6	5.43
Netherlands	8	5.33	9	5.82	8	5.24	8	5.16
Denmark	9	5.32	7	5.86	9	5.20	9	5.15
Canada	10	5.30	11	5.77	6	5.32	14	4.95
Hong Kong SAR	11	5.27	5	5.97	2	5.48	24	4.46
United Kingdom	12	5.25	18	5.58	7	5.28	12	4.98
Taiwan, China	13	5.21	19	5.58	16	5.05	7	5.23
Norway	14	5.14	17	5.65	12	5.13	17	4.83
France	15	5.13	16	5.67	15	5.09	16	4.83
Australia	16	5.11	12	5.74	10	5.20	22	4.54
Qatar	17	5.10	13	5.73	26	4.68	23	4.48
Austria	18	5.09	15	5.67	19	4.93	13	4.97
Belgium	19	5.07	22	5.45	17	5.01	15	4.91
Luxembourg	20	5.05	10	5.81	20	4.92	19	4.76
Saudi Arabia	21	4.95	28	5.32	27	4.67	26	4.41
Korea, Rep.	22	4.93	23	5.42	22	4.81	18	4.81
New Zealand	23	4.92	14	5.71	18	4.97	28	4.30
Israel	24	4.91	39	5.12	23	4.75	11	5.05
United Arab Emirates	25	4.89	8	5.82	21	4.82	27	4.37
Malaysia	26	4.88	33	5.19	24	4.72	25	4.45
China	27	4.84	30	5.27	29	4.63	31	4.13
Brunei Darussalam	28	4.75	20	5.48	67	4.05	72	3.42
Ireland	29	4.74	35	5.18	25	4.68	21	4.55
Chile	30	4.69	37	5.15	35	4.51	44	3.91
Iceland	31	4.68	41	5.05	31	4.57	20	4.61
Tunisia	32	4.65	31	5.25	50	4.28	34	4.09
Estonia	33	4.61	25	5.38	34	4.52	45	3.90
Oman	34	4.61	24	5.41	48	4.30	47	3.87
Kuwait	35	4.59	36	5.16	68	4.03	60	3.57
Czech Republic	36	4.57	44	4.91	28	4.66	30	4.19
Bahrain	37	4.54	21	5.48	33	4.54	55	3.67
Thailand	38	4.51	48	4.82	39	4.41	49	3.78
Poland	39	4.51	56	4.69	30	4.62	50	3.76
Cyprus	40	4.50	29	5.28	36	4.46	36	4.07
Puerto Rico	41	4.49	43	5.01	40	4.39	29	4.24
Spain	42	4.49	38	5.13	32	4.56	41	3.96
Barbados	43	4.45	27	5.34	52	4.22	52	3.69
Indonesia	44	4.43	60	4.62	51	4.24	37	4.06
Slovenia	45	4.42	34	5.18	46	4.33	35	4.08
Portugal	46	4.38	42	5.01	43	4.36	39	3.98
Lithuania	47	4.38	52	4.77	49	4.28	48	3.79
Italy	48	4.37	46	4.84	45	4.33	32	4.11
Montenegro	49	4.36	45	4.90	64	4.08	56	3.67
Malta	50	4.34	40	5.08	47	4.31	46	3.88
India	51	4.33	81	4.30	38	4.42	42	3.96
Hungary	52	4.33	59	4.65	41	4.38	51	3.71
Panama	53	4.33	49	4.79	62	4.08	54	3.68
South Africa	54	4.32	79	4.35	42	4.37	43	3.93
Mauritius	55	4.32	47	4.82	66	4.05	59	3.61
Costa Rica	56	4.31	62	4.59	58	4.13	33	4.11
Azerbaijan	57	4.29	58	4.67	75	3.97	66	3.50
Brazil	58	4.28	86	4.26	44	4.35	38	4.03
Vietnam	59	4.27	74	4.39	57	4.16	53	3.69
Slovak Republic	60	4.25	53	4.77	37	4.43	63	3.54

Source: The Global Competitiveness Report 2010–2011 © 2010 World Economic Forum, (2010–2011, 2011)
<http://www.weforum.org/reports> (09.01.2011)

Appendix 3 2010 Fortune Global 500 (Top 100)

Rank	Company	Revenues (\$ millions)	Profits (\$ millions)
1	Wal-Mart Stores	408,214	14,335
2	Royal Dutch Shell	285,129	12,518
3	Exxon Mobil	284,65	19,28
4	BP	246,138	16,578
5	Toyota Motor	204,106	2,256
6	Japan Post Holdings	202,196	4,849
7	Sinopec	187,518	5,756
8	State Grid	184,496	-343
9	AXA	175,257	5,012
10	China National Petroleum	165,496	10,272
11	Chevron	163,527	10,483
12	ING Group	163,204	-1,3
13	General Electric	156,779	11,025
14	Total	155,887	11,741
15	Bank of America Corp.	150,45	6,276
16	Volkswagen	146,205	1,334
17	ConocoPhillips	139,515	4,858
18	BNP Paribas	130,708	8,106
19	Assicurazioni Generali	126,012	1,82
20	Allianz	125,999	5,973
21	AT&T	123,018	12,535
22	Carrefour	121,452	454
23	Ford Motor	118,308	2,717
24	ENI	117,235	6,07
25	J.P. Morgan Chase & Co.	115,632	11,728
26	Hewlett-Packard	114,552	7,66
27	E.ON	113,849	11,67
28	Berkshire Hathaway	112,493	8,055
29	GDF Suez	111,069	6,223
30	Daimler	109,7	-3,67
31	Nippon Telegraph & Telephone	109,656	5,302
32	Samsung Electronics	108,927	7,562
33	Citigroup	108,785	-1,606
34	McKesson	108,702	1,263
35	Verizon Communications	107,808	3,651
36	Crédit Agricole	106,538	1,564
37	Banco Santander	106,345	12,43
38	General Motors	104,589	--
39	HSBC Holdings	103,736	5,834
40	Siemens	103,605	3,097

41	American International Group	103,189	-10,949
42	Lloyds Banking Group	102,967	4,409
43	Cardinal Health	99,613	1,152
44	Nestlé	99,114	9,604
45	CVS Caremark	98,729	3,696
46	Wells Fargo	98,636	12,275
47	Hitachi	96,593	-1,152
48	International Business Machines	95,758	13,425
49	Dexia Group	95,144	1,404
50	Gazprom	94,472	24,556
51	Honda Motor	92,4	2,891
52	Électricité de France	92,204	5,428
53	Aviva	92,14	1,692
54	Petrobras	91,869	15,504
55	Royal Bank of Scotland	91,767	-4,167
56	PDVSA	91,182	1,608
57	Metro	91,152	532
58	Tesco	90,234	3,69
59	Deutsche Telekom	89,794	491
60	Enel	89,329	7,499
61	UnitedHealth Group	87,138	3,822
62	Société Générale	84,157	942
63	Nissan Motor	80,963	456
64	Pemex	80,722	-7,011
65	Panasonic	79,893	-1,114
66	Procter & Gamble	79,697	13,436
67	LG	78,892	1,206
68	Telefónica	78,853	10,808
69	Sony	77,696	-439
70	Kroger	76,733	70
71	Groupe BPCE	76,464	746
72	Prudential	75,01	1,054
73	Munich Re Group	74,764	3,504
74	Statoil	74	2,912
75	Nippon Life Insurance	72,051	2,624
76	AmerisourceBergen	71,789	503
77	China Mobile Communications	71,749	11,656
78	Hyundai Motor	71,678	2,33
79	Costco Wholesale	71,422	1,086
80	Vodafone	70,899	13,782
81	BASF	70,461	1,96
82	BMW	70,444	284
83	Zurich Financial Services	70,272	3,215

84	Valero Energy	70,035	-1,982
85	Fiat	69,639	-1,165
86	Deutsche Post	69,427	895
87	Industrial & Commercial Bank of China	69,295	18,832
88	Archer Daniels Midland	69,207	1,707
89	Toshiba	68,731	-213
90	Legal & General Group	68,29	1,346
91	Boeing	68,281	1,312
92	U.S. Postal Service	68,09	-3,794
93	Lukoil	68,025	7,011
94	Peugeot	67,297	-1,614
95	CNP Assurances	66,556	1,396
96	Barclays	66,533	14,648
97	Home Depot	66,176	2,661
98	Target	65,357	2,488
99	ArcelorMittal	65,11	118
100	WellPoint	65,028	4,746

Source: Fortune Magazine, 2011. 2010 Global 500 (Top 100). (09.01.2011)

Appendix 4 2011 World's Most Admired Companies

Full List		Industries: Motor Vehicals		
Rank	Company	Rank	Company	Overall score
1	Apple	1	BMW	6,88
2	Google	2	Volkswagen	5,33
3	Berkshire Hathaway	3	Daimler	4,83
4	Southwest Airlines	4	Hyundai Motor	4,68
5	Procter & Gamble	5	Honda Motor	4,37
6	Coca-Cola	6	Ford Motor	4,36
7	Amazon.com	7	Toyota Motor	4,26
8	FedEx	8	Nissan Motor	3,86
9	Microsoft	9	General Motors	3,75
10	McDonald's	10	Renault	3,59
11	Wal-Mart Stores	11	Fiat	3,51
12	IBM	12	Peugeot	3,47
13	General Electric	13	Volvo	3,20
14	Walt Disney	14	ShanghaiAutomotive	3,10
15	3M	15	Dongfeng Motor	2,78
16	Starbucks			
17	Johnson & Johnson			
18	Singapore Airlines			
19	BMW			
20	American Express			
21	Nordstrom			
22	Target			
23	J.P. Morgan Chase			
24	Nike			
25	Goldman Sachs Group			
26	PepsiCo			
27	Caterpillar			
28	Cisco Systems			
29	Costco Wholesale			
30	UPS			
31	Nestlé			
32	Intel			
33	Toyota Motor			
34	Exxon Mobil			
35	Volkswagen			
36	Best Buy			
37	Marriott International			
38	Samsung Electronics			
39	Deere			
40	Netflix			
41	Wells Fargo			
42	Honda Motor			

43	DuPont
44	Yum Brands
45	eBay
46	Sony
47	General Mills
48	Oracle
49*	Accenture
49*	Lowe's

* For the 50 most admired companies overall, FORTUNE's survey asked businesspeople to vote for the companies that they admired most, from any industry.

Source:

Fortune Magazine, 2011) World's most admired companies.

http://money.cnn.com/magazines/fortune/mostadmired/2011/full_list/ (15.03.2010)

Industries: Motor Vehicals. <http://money.cnn.com/magazines/fortune/mostadmired/2011/industries/39.html> (15.03.2011)

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Appendix 6 Resume/Lebenslauf

JUNLIANG BAO

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Persönliche Daten

- ❑ Vorname: Junliang
- ❑ Nachname: Bao
- ❑ Geschlecht: männlich
- ❑ Geburtsdatum/ort: 05.05.1983/Zhejiang
- ❑ Familienstand: ledig
- ❑ Staatsangehörigkeit: Chinesisch



Studium

- ❑ 03/2008 – 04/2011 Universität Wien, Wien, Österreich
Magisterstudium Internationale Betriebswirtschaft
Schwerpunkte: International Management und Controlling
- ❑ 03/2007 – 01/2008 Universität Wien, Wien, Österreich
Bachelorstudium Internationale Betriebswirtschaft (Übergangsphase)
- ❑ 10/2002 – 10/2006 Zhejiang University, Hangzhou, China
Abschluss: Bachelor of International Trade and Economics

Berufserfahrung

- ❑ 10/2010 – 04/2011 Praktikum: Einkauf Passive Sicherheit und Ausstattung
Daimler AG, Werk Sindelfingen, Procurement Mercedes-Benz Cars and Vans, Stuttgart, Deutschland
- ❑ 01/2010 – 06/2010 Praktikum: das Joint Venture „Beijing Foton Daimler Automotive“
und das Lokalisierungsprojekt „Mercedes-Benz-Engine OM457“
Daimler AG, Procurement Trucks and Buses China Office, Peking, China

Zusatzqualifikationen

- ❑ 06/2007 McKinsey & Co: Workshop „Change Management“
- ❑ 12/2008 Stern Stewart & Co: Wertorientierte Corporate Governance
- ❑ 06/2009 All for One Midmarket AG: Controlling mit SAP
- ❑ 10/2009 SAP AG: Logistics & Supply Chain Management: Advanced Planning with SAP

Sprachkenntnisse

- ❑ Deutsch: Verhandlungssicher
- ❑ Englisch: Verhandlungssicher
- ❑ Chinesisch: Muttersprache
- ❑ Französisch: Grundkenntnisse

EDV-Kenntnisse

- ❑ Excel, PowerPoint, Word, VBA, Outlook, Lotus Notes
- ❑ SAP R/3 CO/FI, SAP APO
- ❑ Diverse Vergabe-/Beschaffungssysteme