



A case study of financialization and EVA[®]

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Abstract

This study contributes to the literature on shareholder value and financialization, which to date has produced few case studies at the individual firm level. We provide a grounded account of management control under financialization, focusing on the apparently dramatic turnaround in performance of one factory, located in the northeast of England (Midco). However, in contrast to some of the more prescriptive accounts of shareholder value implementation, we resist overly simplistic explanations that the turnaround was ‘due to’ EVA. Instead, we suggest that both the factory’s prior experience of change, particularly TQM, plus the presence of economic insecurity facilitated the turnaround. We compare our findings with other relevant studies and suggest that EVA and financialized solutions do not constitute a panacea for struggling organizations. Specifically, a strategy prioritizing new product development may be incompatible with the type of practices introduced by Midco.

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1. Introduction

This research stems from an interest in financialization and the implementation of shareholder value from the perspective of key stakeholders affected by the changes. The little research that exists on this subject tends to be partisan rather than independent (but see Malmi and Ikaheimo, 2003; Riceman et al., 2002). There are few intensive case studies of EVA and this paper provides a grounded account of management control under finan-

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cialization. The focus is on a factory, Midco, in the northeast of England, chosen because of the apparently dramatic turnaround achieved during a relatively short period of time.

The paper's key contribution is to describe the way in which EVA was implemented. While our focus is upon local management, we provide contextual information on how Midco's financial situation was communicated to the shop floor and how corporate solutions were sold to them. This can be viewed as part of a complex whole or as the next stage of a process that had been previously manifest by the introduction of TQM. There are two main strands to this paper. Firstly, the story itself is one of the successful implementation in financial terms of EVA. This result reflects the context: it is not that EVA is a magic solution, but that prior experience of change, plus economic insecurity, provided conditions in which EVA could work. Secondly, we explore the implications of our findings, comparing those from Midco against findings from the FWAP (Ezzamel et al., 2004), Conglom (Ezzamel et al., in press) and Kaedtler and Sperling (2002a, 2002b) case studies.

The paper is structured as follows. First, we explore the phenomenon of financialization in the context of shareholder value and coupon pool capitalism.¹ Following earlier work of Armstrong (1985, 1986) and Miller and O'Leary (1994), we suggest that these frameworks might provide further insights into the implementation of shareholder value. After discussing methodology and methods, we introduce the case of Midco, concentrating on the Team Valley factory in the northeast of England during a period from the late 1980s until 1995. This period saw a dramatic turnaround in fortunes of the plant. In our discussion, we explore likely reasons for the outcomes in Midco, focusing on the roles played by particular organizational actors and on Midco's particular, prior, history of TQM. We then broaden the discussion to compare the Midco outcomes with those in the studies mentioned above so as to extract possible new insights. The paper concludes by returning to the original research questions and suggests that the specific outcomes in Midco were attributable to particular local conditions: Midco's prior experience of change and the presence of economic insecurity. Finally, we draw out the implications for further research.

2. Literature review

The growing literature on shareholder value and financialization considers the impact of the stock market's increasing demands for financial returns on corporate behaviour and performance (Froud et al., 2002b). According to Froud et al. (2006) financialization is not anchored in some behavioural fundamentals of firms or households. Instead Froud et al. (2006) argue that financialization leads to coupon pool capitalism, where the capital market stands between households and firms both of which invest in coupons or securities. Under financialization, the behaviour of firms is changed so as to create open dynamics and variable results distinguished by instability, reversibility and unpredictability. According to Froud et al. (2006), managements of giant firms make many firm level moves, leading to an organizational life of ceaseless activity and initiatives. They suggest, however, that manage-

¹ Froud et al. (2002a), page 120 define coupon pool capitalism as existing 'where the financial markets are no longer simple intermediaries between household savers and investing firms but act dynamically to shape the behaviour of both firms and households.'

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