

ANALYZING THE IMPLEMENTATION OUTCOMES OF ECONOMIC VALUE ADDED (EVA™) AT CHINA CONSTRUCTION BANK (CCB)

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Abstract

In 2002, China Construction Bank (CCB) introduced the Economic Value Added (EVA™) indicator as a performance metric linked to value creation and salaries. This article examines the implementation outcomes of EVA™ in four municipal branches of the CCB Inner Mongolia provincial branch. Despite two decades of implementation, the EVA™ metric has faced significant hurdles within the CCB. In particular, a majority of the municipal branches and outlets within the CCB Inner Mongolia provincial branch have shown a preference for traditional financial indicators like deposit and loan growth over the EVA™ metric. This article seeks to analyze the reasons behind the implementation outcomes of EVA™ within CCB from technical, cultural, and political perspectives. The goal of this exploration is to deepen the understanding of the challenges encountered and to offer valuable insights for enhancing the implementation of EVA™ in not just the CCB but also other commercial banks in China.

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1. INTRODUCTION

EVA™ is a measure of the added value of corporate wealth introduced by Stern Stewart in 1991. In order to establish a financial management system, an incentive structure, and a decision-making process based on the idea of Economic Value Added, it has been registered

(Stewart, 1991). Stewart (1991) defined EVATM as “the difference between the profits each unit derives from its operations (NOPAT) and the charge for capital each unit incurs through the use of its credit line.” In Western academics, EVATM could be able to measure a company’s economic profit and the value it creates for its shareholders (Stewart, 1991; Sabol & Sverer, 2017; Ahmadyan & Khansari, 2018; Sakdiyah, 2022; Elmadhoun & Murtaja, 2022; Silvia & Wangka, 2022). In return, shareholder value maximization would bring about greater competitiveness and productivity, higher living standards for employees, and even better functioning of the equity market (Copeland et al., 1996). Meanwhile, Western banks have experienced tremendous success in shareholder value and profitability since implementing EVATM, such as Centura Bank, Credit Suisse First Boston Bank, Lloyds TSB Bank, BancorpSouth, Independence Community Bank, Marquette National Bank, etc (Ehrbar, 1998; Thampy & Baheti, 2012; Pompong, 2015).

After the adoption of EVATM in Western banks has produced satisfactory results, Chinese State-Owned Commercial Banks (SOCBs) have begun to implement EVATM, such as China Construction Bank (CCB), Agricultural Bank of China (ABC), and Industrial and Commercial Bank of China (ICBC), etc (Wei, 2012; Zhao, 2014; Wang, 2015). One of the most popular reasons for adopting EVATM is the widely-held view that it focuses on maximizing shareholder value (Zhang & Aboud, 2019; Nieuwoudt & Hall, 2022).

In 2002, CCB took the lead in introducing EVATM to evaluate the operating performance of each branch. Despite being practiced in CCB for 20 years, the implementation of EVATM has encountered significant challenges, as noted by multiple researchers (Rui, 2021; Zhang, 2019; Jiang, 2009; Li, 2019; Huang, 2014; Hu, 2006; Wu, 2011; Liu, 2017). Interestingly, even the primary promoter of EVATM, Stern Stewart, has seemingly distanced itself from the concept as it no longer prominently features the metric on its website (www.sternstewart.com). This indicates a shift in the perceived utility and popularity of EVATM over time. Despite these issues and criticisms, CCB continues to regard EVATM as a core metric. However, a significant disparity exists between the CCB headquarters’ expectations and the actual application of EVATM in its subordinate municipal branches and outlets, with the latter primarily relying on traditional financial evaluation indicators such as deposit and loan growth. This discrepancy presents an intriguing case for exploring the challenges of implementing EVATM in a complex

organization like CCB. This study explores the reasons for this implementation gap from technical, cultural, and political perspectives. The technical aspect examines the complexities involved in calculating and interpreting EVA™, while the cultural facet explores the organization's resistance to change and the ingrained reliance on established evaluation practices. The political perspective delves into the potential conflicts between the focus of EVA™ on maximizing shareholder value and government policies prioritizing social stability and support for specific sectors.

This article's analysis of the implementation gap's underlying causes offers valuable insights that can guide the enhancement of EVA™ implementation in CCB, as well as other Chinese SOCBs. The elucidation of the technical, cultural, and political factors hindering the successful incorporation of EVA™ provides a roadmap for addressing these issues. Through these insights, these organizations can make informed adjustments to their approach to EVA™, aligning it more effectively with their strategic objectives. Improved implementation could lead to more accurate and meaningful performance evaluations, thereby promoting better decision-making and strategic behavior aimed at value creation.

2. LITERATURE REVIEW

EVA™ is one of the few performance metrics that has been broadly accepted and is believed to approximate shareholder returns. Proponents of EVA™ advocate it as a superior predictor and determinant of company success and shareholder value creation than other conventional and unconventional performance measurements (Stewart, 1991; Ehrbar, 1998).

2.1. EVA™ measures how a corporate produces shareholder value

Supporters of EVA™ have argued that EVA™ is the soundest measure indicator of shareholder value. Stewart (1991) claimed that traditional accounting metrics, such as EPS, ROI, and ROE, are “misleading measures of corporate performance”. Based on the EVA™ formula, it not only measures the performance of a company, but it also measures how and if a corporate produces shareholder value. “The mandate under an EVA™ management system is

to increase EVATM as much as possible in order to maximize shareholder wealth” (Ehrbar, 1998).

In symbols,

If $[\text{NOPAT}-\text{WACC}\times\text{TC}]>0$, EVATM creates value for shareholders;

If $[\text{NOPAT}-\text{WACC}\times\text{TC}]<0$, EVATM destroys value for shareholders;

If $[\text{NOPAT}-\text{WACC}\times\text{TC}]=0$, EVATM maintains value for shareholders.

When the NOPAT of the enterprise exceeds the total cost of capital, the EVATM is positive, which means the value generated by the business results in an increase in shareholders’ wealth (Sabol & Sverer, 2017). On the contrary, if the EVATM is negative, the NOPAT generated by the company is not enough to cover all the costs of capital (debt capital and equity capital), which brings about a decrease in the shareholders’ wealth.

Stern Stewart and Co., argued “EVATM is the financial performance measure that comes closer than any other to capturing the true economic profit of an enterprise. EVATM also is the performance measure most directly linked to the creation of shareholder wealth over time” (Stewart, 1991). CFO Basil Anderson of Scott Paper stated that “We used to have different financial measures for different purposes - discounted cash flow for capital decisions, another measure for rewarding performance and the like.... Now EVATM is one measure that integrates all that.... it offers an excellent link to the creation of shareholder value” (Walbert, 1995). Fiordelisi and Molyneux (2004) conducted a study of 71 European banks. They carried out research on the EVATM indicators of these financial institutions. To calculate EVATM, they first adjusted numerous accounting indicators to some level, then illustrated the unique procedure of calculating EVATM value in detail, after which they discovered that EVATM was substantially connected with the shareholder value of banks.

2.2. EVATM encourages banks to obtain long-term benefits

EVATM advises companies to capitalize their restructuring, training, marketing, and R&D costs and then readmit these costs into managers’ internal capital accounts gradually. Payoffs would thus be reflected over a long period of time instead of just in one fiscal period (Libo, 2022; O’Byrne & Rajgopal, 2022). The capitalization of these spending motivates

managers to increase or maintain the spending if they believe the spending will produce earnings for the company instead of slashing it just to meet a period earning goal (Stewart, 2009). In the process of calculating EVATM, restructuring charges are added to the balance sheet rather than expensed, which makes outlays be treated as investments. Also, the goodwill amortization would be added back to the capital of the balance sheet and to earnings of the income statement and converted to cash flow accounting, which makes managers think about whether they could generate enough cash to cover the cost of purchase acquisitions or not. By doing so, the management of corporations would have to produce a minimum return on investment and make the right long-term decisions in the short term. For example, since Federal-Mogul adopted EVATM in 1997, the company has treated research spending as a five-year asset and written off the research spending's over a period of five years rather than all at once. After one year of implementing EVATM, Federal-Mogul had more than doubled its stock price and sales. Under the circumstances, managers are not motivated by short-term indicators and are more likely to take long-term investment measures. Consequently, EVATM encourages companies to make long-term investment decisions and offers a worthy framework for "converting wrong accounting numbers into correct estimates of value" (Stewart, 1991).

2.3. EVATM measures economic profits

Economists and accountants disagree on how profits should be defined (Abdalla & Carabias, 2022). Profits, according to accountants, are the difference between revenues and expenses and taxes. When calculating profits, accountants never take the cost of capital into consideration. In other words, the cost of the equity capital is not deducted from the revenue generated by the company. However, from the perspective of an economist, profits exclude a significant expense item: the opportunity cost of the equity capital given by the firm's shareholders. So, there are charges for all of the resources that are used in the calculation of profits. This includes the opportunity costs associated with the equity capital that the shareholders have invested in the enterprise. As a result, the computation of economic profits is a net profit over and above the cost of all available resources. So a company might be prosperous in the accounting sense while being unprofitable in the economic sense. As Drucker

(1995) argued that “until a business returns a profit that is greater than its cost of capital, it operates at a loss. Never mind that it pays taxes as if it had a genuine profit. The enterprise still returns less to the economy than it devours in resources”.

EVA™ is one of the most effective tools for determining a firm’s actual economic profit (Sakdiyah, 2022; Hamme & Siegfried, 2022; Tripathi et al. 2022). It is “the difference between the profits each unit derives from its operations (NOPAT) and the charge for capital each unit incurs through the use of its credit line” (Stewart, 1991). EVA™ considers the firm’s “residual profitability”, which is calculated after deducting the total cost of capital, including both the direct cost of debt capital and the indirect cost of equity capital (Sabol & Sverer, 2017; Ahmadyan & Khansari, 2018). Therefore, Grant (1996) pointed out that the EVA™ theory may have permanently altered how true profitability is calculated.

3. METHODOLOGY

This article chooses four municipal branches of the Inner Mongolia provincial branch of CCB as the research objects. These four municipal branches have all used EVA™ to evaluate their subordinate outlets and have completed necessary training programs in promoting the EVA™ indicator. This paper utilizes three sources to gather data and conduct investigations into the four case entities. Data triangulation was used to gather information from a variety of perspectives and channels in order to ensure mutual corroboration of these different data sources. Firstly, reviewing publicly available information, including CCB’s policy on implementing EVA™, specific requirements for EVA™ evaluation, promotional reports, CCB’s website, and annual reports, etc. Secondly, interviews were conducted with executives and employees from the CCB Inner Mongolia provincial branch and its municipal branches to obtain their perspectives on EVA™. The interviews consisted of open-ended questions and were conducted on-site; each interview lasted between one and two hours. Following Eisenhardt’s (1991) recommendation, interview records and recordings were transcribed into the manuscript within twenty-four hours of each interview. Any ambiguous or questionable points were confirmed and supplemented via phone or email. Thirdly, participant observations were supplemented to ensure the authenticity and objectivity of the data. Qualitative data

analysis software (Nvivo) was used for analysis. Coding was designed based on the research questions, and the results of coding analysis were synthesized and summarized to ensure the validity and reliability of the article.

4. FINDINGS

In 2002, with the assistance of McKinsey & Company, CCB introduced the EVA™ indicator for the first time. EVA™ was officially proposed in the “Comprehensive Operating Plan for 2002”. To support the implementation of EVA™, the CCB headquarters has established a senior advisory committee to examine the estimated EVA™ values of CCB headquarters and its subsidiary branches, analyze the relationship between EVA™ and the CCB stock price, and conduct face-to-face communication with employees to ensure they are psychologically prepared to understand and accept EVA™. This research conducted interviews with four municipal branches of the CCB Inner Mongolia provincial branch. These four municipal branches, hereinafter referred to as “A1, A2, A3, and A4”, are anonymous names used to disguise the real identity of the case entities.

A1 municipal branch does not apply EVA™ to its performance evaluation of its subordinate outlets and employees. Its application of EVA™ is only to meet the requirements of the Inner Mongolia provincial branch. A manager pointed out that the A1 municipal branch does not implement the EVA™ metric and mainly evaluates its subordinate outlets through deposit, loan, and profit. An employee of the A1 municipal branch pointed out that most employees do not understand EVA™ and think it is too complicated. Financial personnel believed that the calculation of EVA™ in the A1 municipal branch lacks consistent standards, and for non-financial personnel, it is difficult to understand the meaning of EVA™. Consequently, the A1 municipal branch does not use the EVA™ indicator for the performance evaluation of its subordinate outlets and employees. As EVA™ is not used in the performance evaluation of the A1 municipal branch, it has little impact on its various decisions. However, the A1 municipal branch does calculate EVA™ and reports it to the Inner Mongolia provincial branch. Generally, as long as the A1 municipal branch can meet the deposit, loan, and profit indicators, it can meet the requirements of the Inner Mongolia provincial branch for its EVA™.

Therefore, the EVATM indicator has yet to form its culture in the A1 municipal branch, has not integrated into the performance evaluation system of its subordinate outlets, and has no critical impact on their decision-making.

A2 municipal branch introduces EVATM into its performance evaluation of its subordinate outlets. A financial manager of the A2 municipal branch indicated that EVATM and deposit and loan indicators are the main factors used to evaluate the performance of its subordinate outlets and employees. The top five well-performing outlets of the A2 municipal branch are selected for commendation and reward annually. Although EVATM is included in evaluating the outlets of the A2 municipal branch, its impact on the decision-making behavior of its outlets is weak. The financial manager of the A2 municipal branch stated that there is little change in loan decisions that are made before and after the implementation of EVATM. Although the EVATM indicator is incorporated into loan analysis, the EVATM value in loan analysis reports has no binding force. The predicted data in loan analysis often differs significantly from the actual data. Ultimately, loan decisions are not closely related to EVATM calculations. Moreover, once loan decisions are made, there is no post-analysis or follow-up based on EVATM, nor is there any assessment of employees, customer managers, and branch managers based on the actual and planned EVATM values. Therefore, EVATM is only nominally part of the performance evaluation of the A2 municipal branch, and its impact on its decisions is weak.

A3 municipal branch strictly incorporates EVATM into its performance evaluation for its subordinate outlets and employees in order to maximize EVATM's contribution to shareholder value. A3 municipal branch has introduced the EVATM indicator in loan evaluation, which plays an important role in loan review and approval. A financial manager at the A3 municipal branch stated that the EVATM indicator is a crucial part of loan feasibility reports. Prior to implementing EVATM, the A3 municipal branch focused primarily on the loan amount and profit. However, after implementing EVATM, projects with negative EVATM would affect the bank's overall evaluation if only profit is considered. The bank's strategic focus has shifted from loan, deposit and profit to value creation. Additionally, within the A3 municipal branch, there are strict constraints on the EVATM metric, and each outlet is responsible for the predicted EVATM values in the loan feasibility reports. Failure to meet the predicted EVATM values in the feasibility reports would seriously affect the outlet's performance. However, several respondents criticized

the effectiveness of the EVATM metric in evaluating loans. Some employees argued that EVATM may not accurately reflect the true value created by a loan project and that it can be manipulated by companies to improve their financial performance artificially. In addition, EVATM may not be suitable for all types of loans, particularly those that are more focused on social or environmental impact rather than purely financial returns. For example, loans to small businesses or startups may not generate positive EVATM in the short term but can have significant long-term benefits for the community and the economy. While EVATM can be a useful tool for loan evaluation, it should be used in conjunction with other metrics and factors that consider the long-term impact of a loan on both financial and non-financial outcomes.

A4 municipal branch implements the EVATM metric for its subordinate outlets and employees, accounting for 40% of the total performance evaluation. Moreover, the A4 municipal branch adjusts the returns for different regions and departments. Based on the EVATM compensation incentive mechanism, the A4 municipal branch considers the differences between its subordinate outlets and departments. To begin with, there are regional economic differences between outlets. For example, outlets in urban areas have a better economic environment, making it easier to create more EVATM. However, a county outlet in an underdeveloped area needs to make more efforts to achieve the same rewards of an urban outlet. Therefore, outlets operating in different areas could not create the same benefits even with the same level of management and investment. Meanwhile, different departments have different outputs. For example, the corporate banking department operates the wholesale business, with loans exceeding billions of Yuan, while the personal banking department operates the retail business, with transactions worth only tens of thousands or even thousands of Yuan. Therefore, outlets operating different types of businesses in different regions are limited by objective conditions, and even with the same level of effort, the EVATM created is different. In order to eliminate the differences in employee compensation caused by these factors, the A4 municipal branch adopts different performance salary coefficients for different outlets and departments when implementing the EVATM-based compensation incentive mechanism. A customer manager pointed out that the A4 municipal branch's approach to adjusting the returns for different regions and departments may not fully address the limitations of the EVATM metric. While it is important to consider the differences between outlets and departments, adjusting the returns for

these factors may not fully capture the underlying reasons for the differences in EVATM created. For example, outlets in underdeveloped areas may face more significant challenges beyond the economic environment that could affect their ability to create value. A teller indicated that EVATM could create a culture of competition among employees, as it accounts for 40% of the total performance evaluation in the A4 municipal branch. This may not be beneficial for the A4 municipal branch in the long run, as it could lead to a lack of collaboration and knowledge sharing among employees. This could limit innovation and creativity, which are critical for the A4 municipal branch's long-term success. The president of the A4 municipal branch referred that the implementation of an EVATM-based compensation incentive mechanism could also lead to unintended consequences. For example, employees may focus solely on maximizing EVATM without considering other factors that are important for the A4 municipal branch's success, such as customer satisfaction or employee engagement, etc. This could result in a short-term focus on financial gains at the expense of other critical areas.

5. DISCUSSIONS

The institutionalization framework offers the chance to explain the implementation of EVATM within CCB over the last 20 years. Just as "... by institutionalized, we mean that management accounting can, over time, come to underpin the 'taken-for-granted' ways of thinking and doing in a particular organization" (Burns & Scapens, 2000). According to proponents of management fashion theory, a management fashion eventually loses its support and its underlying practice, and as a result, the fashion itself will also be forgotten (Abrahamson & Fairchild, 1999). However, current research suggests that even after the discourse fades, the practices connected to specific management fashions may still survive. For example, the once-popular discourse of Total Quality Management (TQM) still has a long-lasting influence on how companies handle quality-related issues (Kaur et al., 2019; Siripipatthanakul et al. 2022). When the discourse started to fade, the practice continued, demonstrating that the practice must have been institutionalized, which means it became "taken for granted by members of a social group as efficacious and necessary" (Tolbert & Zucker, 1996).

Institutional theory has been the preferred approach for management accounting scholars

seeking to explain how and why management accounting has evolved into what it is or is not (Moll et al., 2006; Modell, 2022). Perkmann and Spicer (2008) proposed institutional work includes political, technical, and cultural work. Political work aims to develop and reorganize rules and property rights as well as create new arrangements of actors. Technical work entails the creation of frameworks that advise, recommend, or regulate a particular course of action. Cultural work frequently builds or re-frames belief values and systems by connecting practices to discourses with broader discourses (Lawrence & Suddaby, 2006; Perkmann & Spicer, 2008).

5.1 Cultural aspects

During the 2000s, CCB's top management reacted unenthusiastically to any evaluation of individual and team performance, and the concept of EVA™ as a corporate aim was viewed as strange. CCB's initial adoption of EVA™ was stressful, since EVA™ was threatening to this mature bureaucratic organization. Most people were reluctant to tamper with fixed practices unless a sense of crisis developed because of a desperate scenario. The working environment at CCB at that time was usually pleasant, and many top managers benefited from following stereotyped routines. For example, the top managers of a municipal branch were overpaid for their poor performance, but it is highly likely that they would have been paid less if they had followed the EVA™ bonus plan. As a result, during CCB's initial EVA™ training programs, many employees claimed that "EVA™ would never work in CCB's culture." This culture is characteristic of Chinese public institutions, state-owned entities, and government departments. In these organizations, work is supposed to be leisurely, compensation is generous, and promotion is typically dependent on seniority rather than performance. In such a setting, employees are not acclimated to salary adjustments. They are also dissatisfied with the existence of rigorous standards, such as EVA™, to evaluate their performance. They are also acclimated to a stress-free office routine that values punctuality for work and departure. After hearing a presentation on EVA™, a manager commented, "according to that plan, we must be in the office until 6 o'clock every evening!"

EVA™ emphasizes "encouraging managers to think like owners." However, in CCB's working surroundings, this is impossible. Employees do not find it appealing to operate as

owners. They have no wish to become owners due to risks. They consider themselves to be senior claimants and creditors, and they avoid taking risks. The fact that CCB is a state-owned and centralized enterprise is vital for them because they could receive a stable salary, pension, and a comfortable working environment. In addition, some CCB managers are not primarily driven by monetary rewards. Instead, they have a larger interest in organizations that give them the ability to command their subordinates and enjoy higher positions, power, and control. According to respondents from the Inner Mongolia provincial branch, “opportunities for self-fulfillment and personal development” “lifelong job stability” “peer recognition and respect” and “long-term job titles” are the primary sources of motivation for them at work. The notion of employing monetary incentives as a motivator was mocked by these respondents.

5.2 Political aspects

CCB is actually an appendage of the Chinese government despite undergoing deepening reforms and embracing market competition. The top management still focuses on maintaining a good relationship with the government to obtain various forms of support and protection. Sometimes, it is difficult to operate without the government’s support. In such an environment, the management philosophy of “creating shareholder value” advocated by EVA™ is relatively weak. In an interview with a manager from the A2 municipal branch, “Due to the characteristics of the banking industry, the operational decisions of commercial banks are heavily influenced by the government’s macroeconomic and financial strategies, making it difficult to prioritize financial value enhancement and maximizing shareholder wealth.” To maintain social stability, solve the problem of reemployment for laid-off workers, and support the transformation and revitalization of state-owned enterprises, the government has formulated a series of discriminatory policies that shift the risks that should have been undertaken by the government, enterprises, and individuals to banks, such as poverty alleviation loans, stability loans, and student loans. For example, the deputy chief of a county government in Inner Mongolia forcefully demanded that a municipal branch of CCB provide a loan of RMB 2.8 million to a company that was going bankrupt and threatened that if the loan was not approved, the government would no longer seek help from the bank, nor would the bank be able to seek help

from the government. The local governments always step in and order banks to provide loans to companies in crisis to prevent bankruptcy and the resulting unemployment of workers that could affect social stability.

There is a significant conflict between EVA™ and CCB's operating philosophy. The Chinese banking industry is closely related to the national economy and people's livelihood, and their operational decisions are greatly influenced by macro government policies rather than being based on EVA™'s creation of shareholder value. Due to the unique nature of the Chinese banking industry, the mission of CCB is not to maximize shareholder value but to implement the financial strategies of the Chinese government, which is the primary operating philosophy of CCB. A senior executive of CCB Inner Mongolia provincial branch stated, "We are a state-owned commercial bank, and our top priority is prudent operation and steady development. Compared to that, the status of EVA™ in the minds of CCB's leadership is much lower." Similarly, managers at the A1 municipal branch cannot unify the concept of maximizing shareholder value represented by EVA™ with their own operating philosophy. As a state-owned commercial bank, the A1 municipal branch bears social responsibilities beyond shareholder value and profitability. A1 municipal branch executives complained, "EVA™ is a shareholder value indicator, but CCB cannot only obey shareholder value. Maintaining stability, solving social employment, promoting the development of national strategic industries, fulfilling social responsibilities, and so on, are sometimes more important and realistic for us than shareholder value and financial returns." Thus, EVA™ is not applicable to the Chinese banking industry with strong policy orientations.

5.3 Technical aspects

Although EVA™ has accumulated a wealth of experience in Western banks, which may not be applicable to Chinese banks. EVA™ was a strange idea for CCB in 2002, which is the first Chinese bank to implement it, and the lack of experience may contribute to the failure of EVA™ implementation. In order to help financial personnel to understand EVA™, its calculation methods, and evaluation methods, there were training programs for financial personnel at provincial branches. However, CCB's training of managers and employees is

inadequate, resulting in a significant number of managers and employees who have not accepted the concept of EVA™. Due to Stern-Stewart's expensive consulting fees and limited operational capabilities, CCB did not hire Stern-Stewart to conduct the training programs. CCB's staff education and training instructors are all part-time leaders, department managers, and key employees. Even though they possess professional theoretical knowledge and extensive working experience, most of them lack educational theories and teaching experience, which negatively impacts the quality of their instruction. Leaders are overburdened and need more time to manage the instructional and training content. The middle-level and critical personnel are overburdened with corresponding business indicators and lack the energy to study and discuss teaching and training methods. Especially when new operating procedures and financial products are introduced, instructing others without first gaining understanding and experience is clearly inappropriate. Staff education and training are an empty shell due to the incompetence of part-time instructors and incompetent teachers.

The Inner Mongolia provincial branch of CCB has simplified the calculation of the EVA™ indicator by unifying and specifying the capital cost rate, excluding the complicated adjustment items in EVA™ calculation, and not adjusting expenses such as R&D costs, advertising and promotional expenses, and employee training expenses. However, these designs have not been recognized by its subordinate municipal branches, outlets, and departments, encountering significant resistance. Employees generally feel that EVA™ is not intuitive, and management feels that the impact of EVA™ on decision-making is not clear. "EVA™ is difficult to understand." "We are not financial professionals and cannot understand it." "The calculation process is too professional." "It is more complex than how to increase deposits and loans." The chief accountant of the A1 municipal branch expressed his dissatisfaction at the beginning of the interview: "EVA™ is not intuitive, and that is why we gave up using the EVA™ indicator for subordinate outlets and staff. EVA™ is an absolute value that makes people dizzy." The human resources manager of the A1 municipal branch complained: "EVA™ indicator is troublesome in setting annual performance goals."

6. CONCLUSIONS

In the A1 municipal branch, although EVA™ is used to meet the requirements of the Inner Mongolia provincial branch, it is not applied to the performance evaluation of its subordinate outlets and employees. Therefore, its impact on decision-making is minimal. In the A2 municipal branch, even though EVA™ is included in performance evaluations, its impact on decision-making behavior remains weak, primarily evidenced in loan decisions. The A3 municipal branch strictly incorporates EVA™ into its performance evaluation of its subordinate outlets and employees to maximize EVA™'s contribution to shareholder value, although some employees have raised criticisms about the effectiveness of EVA™ in loan evaluations. In the A4 municipal branch, the EVA™ metric makes up 40% of the total performance evaluation, and the returns for different regions and departments are adjusted accordingly. However, this approach may overlook factors that cannot be measured by EVA™ and might lead to employees overemphasizing EVA™, neglecting other important factors like customer satisfaction or employee engagement. This could result in a short-term focus on financial gains at the expense of other critical areas. These analyses demonstrate that the application and influence of EVA™ vary across municipal branches and outlets, and a range of complex factors need to be considered when using EVA™.

The implementation effects of EVA™ within CCB are not as successful as CCB headquarters expected, which could be attributed to cultural, political, and technical factors. Culturally, the organization's resistance to change and reluctance to deviate from established practices hindered the acceptance of EVA™ as a performance evaluation tool. The prevailing culture valued seniority over performance, resulting in overpaid top managers who performed poorly. The introduction of EVA™, which tied compensation to performance, created dissatisfaction among employees accustomed to fixed routines and generous compensation regardless of their performance. On the political front, CCB's close ties with the Chinese government influenced operational decisions, prioritizing government policies over the creation of shareholder value advocated by EVA™. The government's focus on social stability and employment often led to interventions in the form of demanding loans to support struggling companies, shifting risks onto the banks. This conflict between government priorities and

EVA™'s principles further complicated the implementation process. Technically, the lack of experience and inadequate training programs hindered the successful adoption of EVA™ within CCB. Insufficient training resources and the absence of professional instructors resulted in a significant number of managers and employees who struggled to understand and accept the concept of EVA™. The complexity of EVA™ calculations and the lack of intuitiveness in its impact on decision-making created resistance among employees, who found it easier to focus on familiar tasks rather than grasping the intricacies of EVA™. These consequences underscore the challenges faced by CCB in aligning its operations with the principles of EVA™. The resistance to change, conflicting priorities, government intervention, lack of experience and training, and the complexity of EVA™ calculations all contributed to the difficulties encountered in implementing EVA™ within the organization.

7. IMPLICATIONS

The varying implementation and influence of EVA™ across the A1, A2, A3, and A4 municipal branches of CCB Inner Mongolia highlight several key issues that may be applicable to similar organizations attempting to adopt this performance metric. Firstly, cultural resistance to change is a significant barrier. Traditional performance evaluation methods, such as deposit and loan growth, may be deeply ingrained within the organization. This could hinder the acceptance of new and complex metrics like EVA™. As seen in the A1 and A2 municipal branches, without full integration into performance evaluation processes, EVA™'s impact on decision-making remains minimal. Secondly, the effectiveness of EVA™ might be doubted within the organization, as indicated by some employees' criticisms in the A3 municipal branch. Adequate training and support are therefore essential to help staff understand EVA™'s principles, calculations, and implications for their work. Thirdly, while the A4 municipal branch's approach of adjusting EVA™ returns for different regions and departments seems equitable, it underscores the complexity of implementing such a performance measure. It also highlights the risk of over-reliance on EVA™, potentially overshadowing other important factors such as customer satisfaction and employee engagement. Moreover, the implementation

of EVA™ could be at odds with governmental and societal priorities, especially in State-Owned Commercial Banks. The emphasis on value creation for shareholders might conflict with government policies focusing on social stability and support for struggling sectors. Finally, the implementation of EVA™ in these municipal branches illustrates the need for a balanced approach when integrating new performance metrics. While EVA™ can provide valuable insights, it should be used in conjunction with other measures to ensure a holistic view of performance. In summary, the varied implementation outcomes of EVA™ across the CCB Inner Mongolia municipal branches demonstrate that introducing such a metric requires not only technical adjustments but also significant cultural and political changes within an organization. This highlights the importance of comprehensive planning, communication, and training when implementing new performance measures.

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