THE INFLUENCE OF MANAGEMENT POWER ON ENTERPRISE PERFORMANCE

Xinping Zeng

Panyapiwat Institute of Management, Nonthaburi, Thailand

According to the statistics, from 1980 to 2017, China's economy and investment both showed a tendency of rapid growth, in which the average annual growth rate of GDP was as high as 9%. However, in the process of rapid macroeconomic growth, inefficient enterprise development is found to be hidden at the microlevel, which is caused by the agency conflict between shareholders and managers and the separation of enterprise ownership from the management board. Therefore, in pursuit of personal profit maximization, management tends to have self-serving and inefficient investment behaviors and decisions with the power at hand, thus greatly affecting the performance of enterprises. As a necessary supplement, internal control is substantially an institutional arrangement that is aimed to maximize the realization of organizational goals, coordinate and maintain the relationship of interests between enterprise stakeholders, and avoid the conflicts of interests, which is a significant component of corporate internal governance. The issue concerned in this paper is that in the context of the existing corporate governance system in China, what influence does management power have on enterprise performance? In this paper, the influence of management power on enterprise performance is empirically tested, and recommendations for effective supervision and control of management power systems are provided, as they are expected to have a positive effect on improving enterprise performance and protecting the interests of minority shareholders.

Keywords: management powers; enterprise performance; enterprise management

Introduction

The management thinking of enterprises is changing and developing all the time. To improve own performance, enterprises are constantly conducting strategic change, the ultimate purpose of which is to improve performance and strengthen competitiveness. However, there is a complex nonlinear relationship between strategic change and enterprise

Xinping Zeng

Ph.D. Student, Chinese Graduate School,

Panyapiwat Institute of Management, Nonthaburi, Thailand.

Research interest: corporate governance, logistics management, organizational change

E-mail: Tonny_Zeng@hotmail.com

THE INFLUENCE OF MANAGEMENT POWER

performance. Corporate governance is always about people, and corporate strategic change is always promoted by people in power. In other words, strategic change is always based on the guidance and motivation of enterprise management authority. Reasonable management power concentration and authorization will always directly impact enterprise performance.

On the whole, how does the power of enterprise management level affect corporate performance? What are the moderating factors between the power of enterprise management and enterprise performance? How to achieve the goal of improving enterprise performance by dynamically adjusting these factors? These issues are worth thinking about and studying.

Research purpose

Theoretical significance

The interpretation of enterprise performance from the perspective of management power expands the research scope on the efficiency of enterprise capital allocation. According to the traditional management theories, the factors affecting enterprise performance should be interpreted from the perspectives of the information asymmetry theory and the principal-agent theory.

However, discrepancies in property rights structure and organizational structure of enterprises and corporate governance structure bring about agency problems and information asymmetry within enterprises, thus forming differences among differentiated management powers.

Therefore, under different management powers, there could be very different reasons affecting corporate performance. In this paper, the influence of different management power arrangements on corporate performance and economic consequences is analyzed.

Our aim is to enrich the explanation of the reasons affecting corporate performance and further develop the research on the corporate governance theory.

Practical significance

In this paper, management power is described from different dimensions, which is conducive to a comprehensive and reasonable assessment of management powers overall. Separation of ownership from management at contemporary enterprises makes the management level be in the core position and gain the actual control rights over the enterprise. Inter alia, the management level is responsible for the formulation and implementation of business strategies.

The composition of its power is not limited to a certain dimension, and different dimensions of power reflect different aspects of power.

Consequently, the management power index is a multidimensional composite, reflecting the strength of different aspects of power. In the existing management power theory and research, the status and importance of management have been fully recognized, but there is no consensus concerning the sources and the composition of power.

Therefore, establishment of a systematic and scientific management power indicator system will contribute to the reasonable estimation of management powers at enterprises, provide a reference for configuration of the control and decision-making power of enterprises, specifically monitor and suppress self-interested behavior under management authority, reduce inefficient investment, thus promoting overall better performance and raising long-term value of enterprises.

Literature review

Management power

The definition of "management power" can be abstract and comprehensive at the same time. It can be seen as an exclusive skill of senior managers, with a wide range of involved aspects and a relatively complex execution process. In a macro sense, it can be interpreted as the ability of management to suppress dissenting opinions, the ability of management to overcome resistance in the process of achieving the preset purposes, and the ability of management to execute its own will (Kimberly, 1979). With the gradual deepening of the research and the growing agent problem, the strength of the explanation of the real economic phenomenon has been weakened by virtue of the single optimal contract theory.

Therefore, in queries, a countervailing theory of management power emerges at the right moment, which makes the definition of management power clearer and defines management power as the bargaining power possessed by management in negotiations with the board of directors.

Chinese scholars approve and follow the definition of this concept from Western scholars, and further indicate that within China's transition economy, the native defects of corporate governance institution is the root cause of the imbalance between the rights and the responsibilities of management, while the lack of a balance mechanism is the immediate cause for the expansion of management powers (Cao et al., 2010; Tang et al., 2011).

The academic circles generally refer to the four-dimensional definition method, and select corresponding indicators from the four main aspects of organizational structure power, ownership power, expert power and reputation power to measure the management power. In this paper, the construction of the management power index is carefully investigated from the seven aspects of the management structure power, management background characteristics and board governance structure through principal component analysis, which specifically mentions whether the chairman and the general manager are held by one person concurrently, the degree of equity dispersion, whether the management owns shares, the length of service of the general manager, the age of the general manager, board size, the proportion of inside directors and other sub-indicators.

Enterprise performance

Enterprise performance is an indicator measuring success of a business, referring to the operation benefits and operator performance achieved by an enterprise during a certain period of time. More specifically, operation benefits of an enterprise can be embodied in the aspects of profitability, capital operation capacity, debt paying ability and sustainable development potential (Elbanna & Child, 2007).

The operator's performance embodies the operator's contribution to the enterprise value in the course of the enterprise's operations and management, while the business operation results can reflect the operator's work achievement in the enterprise operations and decision-making management. Corporate performance measures the achievement of corporate financial goals. From the perspective of comprehensive financial indicators, these financial goals can be divided into enterprise value maximization, earnings per share maximization and shareholder's equity maximization.

THE INFLUENCE OF MANAGEMENT POWER

Enterprise performance is evaluated by establishing a comprehensive evaluation system and by means of mathematical statistics and operational research, as well as the combination of quantitative and qualitative analyses.

Through the comparison with the corresponding evaluation standards, operational results of an enterprise can be evaluated during a certain period of time, including such aspects as enterprise profitability, enterprise assets quality level, debt risk (Hanbrick et al., 1984).

The most common enterprise performance evaluation index in the research is the financial index. Some scholars state that it is not comprehensive and objective to analyze the operational results of a given period using solely financial data from the financial statements since financial statements may be often manipulated. Still, due to such advantages as easy access, strong comparability and comprehensive nature of such data, the financial index method is still being extensively used by researchers. The most widely used financial indicators mainly include return on total assets (ROA) and return on equity (ROE), and in this paper in particular ROE is adopted as the financial indicator to evaluate corporate performance.

Relevance between management power and enterprise performance

Enterprise development is strongly related on whether managers put energy into daily operations. When managers hold company stocks, they are more willing to make reasonable operating decisions that are conducive to the development of the company overall and invest in the projects that would be beneficial for the enterprise development because they tend to be consistent with the interests of the owners and are hoping to seek their own welfare by improving the enterprise performance. The more equity the managers own, the greater their earnings power. In order to acquire long-term equity interests, managers who hold shares are more willing to make decisions conducive to the good growth and development of the enterprise.

Taking the GEM listed companies in China as of 2012 as the research object, we have found that there is a significant positive correlation between managers' shareholding and corporate performance. The length of managers' tenure helps them have a more comprehensive understanding of the development and operation status of the enterprise and the development trends of the industry to which their enterprise is affiliated, so that they can accurately position the enterprise at the market and clearly understand its key strengths and advantages.

Long-serving managers are more likely to formulate strategies that conform to the development of the enterprise and are based on the current development status of the enterprise, so as to effectively increase the business performance. From the perspective of the mediating effect of R&D investments, our research shows that there is a significant positive correlation between manager's tenure and corporate performance (Finkelstein, 1992).

The relationship between educational background and managerial abilities is not absolute, but educational background can be partly regarded as a symbol of such ability. Senior management with a high level of education has a relatively stronger ability to understand things, so they can better collect information they need and analyze it effectively. Therefore, highly educated managers can more quickly identify the potential problems in the company from the information they gather and quickly come up with strategies to solve them.

Managers at the core of the management should be highly educated, because this is not only conducive to establishing their authority as experts among other managers, but also conducive to improving the communication efficiency between management, so as to promote effective management of the enterprise and improve its performance. For both chairman and the general manager, equity ownership, higher education and longer tenure of managers can bring greater reputation, prestige and authority, thus all having a positive influence on enterprise performance.

Research methods

Literature review method

In the course of the literature review, we have found that the major reason behind successful enterprise performance is when the management agent is capable of collecting and sorting out the existing factors affecting enterprise performance. Sorting out pertinent literature on management powers, we have also come to a gradual distinction between the measurement of management power and its economic effects.

The key research direction in this paper has been focusing on the issue of strategic choice under management authority and systematically reviewing achievements, deficiencies and development trends in the field.

Finally, details on this study have been completed according to the internal and external governance literature, by collecting and sorting out the literature on the influence of management powers on enterprise performance.

Economic mathematical modeling method

On the basis of the theoretical analysis, a theoretical model was constructed. Study samples were identified and the regression analysis was performed using latest econometric methods, such as descriptive statistics, principal component analysis, multiple regression, group regression and other statistical methods. Research design was conducted, research samples were determined, and regression analysis was conducted on the influence of management powers on enterprise performance and the moderating effect of internal and external institutional environment.

Research results

The results of the research are presented in Tab.1, 2.

THE INFLUENCE OF MANAGEMENT POWER

Table 1 - Research variables
(made by author)

Variable Type	Description	Variable	Variable Meaning
Explained Variable	Enterprise performance	ROE	Net profit/Net assets
Explanatory Variable	Management power	POWER	Factor analysis of seven indicators behind management power
Mediated Variable	Strategic change	SC	Comprehensive strategic change value obtained by adding six strategic indicators
Moderating Variable	Environmental uncertainty	EU	Calculated by a formula
Control Variable	Enterprise scale	SIZE	Natural log of the total assets
	Ownership concentration	TOP	Shareholding ratio of the largest shareholder this year
	Financial Leverage	LEV	Enterprise debt / Total assets
	Executive Compensation	SAL	Divide the sum of the salaries of the top three executives by 3, taking the natural log
	Executive Scale	TSIZE	For the number of senior executives, the natural log is taken
	Enterprise Growth	GROW	Increased rate of operating revenue (the amount of operating income in the current period - amount of operating income in the same period of last year)/(amount of operating income in the same period of the last year)
	Operation Capacity	OPER	Total assets turnover; operating revenue/average total assets
	Year	YEAR	Annual dummy variable
	Industry	INDU	Industry dummy variable

There is a positive correlation between management power and enterprise performance.

Summary and discussion

In this paper, based on the data concerning A-share listed companies in Shanghai and Shenzhen, 2007 to 2018, the method of combining theoretical analysis with empirical research was adopted to test the influence of management power on enterprise efficiency from the perspective of internal and external governance. Firstly, the influence of management power on enterprise performance was explained by using incomplete contract theory, principal-agent theory, information asymmetry theory, stewardship theory and incentive theory. Then, after the role of internal and external governance mechanisms was fully taken into account, theoretical models were constructed and the data were collected. Descriptive statistics, principal component analysis, multiple regressions, grouping regression and other methods were used to analyze the data, and the research hypothesis was empirically tested.

Table 2 - Regression Analysis of Management Power and Enterprise Performance
(made by author)

		Explained Variable ROE			
		Coefficient	T Value	Coefficient	T Value
Explanatory Variable	POWER	0.006 ***	2.830	0.007 ***	2.940
Mediator Variable	SC			0.005 ***	2.690
Control Variable	SIZE	0.005 ***	3.910	0.005 ***	4.030
	SAL	0.033 ***	16.440	0.033 ***	16.500
	LEV	-0.067 ***	-9.300	-0.068 ***	-9.410
	OPER	0.031 ***	11.240	0.031 ***	11.420
	TOP	0.001 ***	4.400	0.001 ***	4.380
	YEAR	Control		Control	
	INDU	Control		Control	
Constant	CONS	-0.484 ***	-16.040	-0.489 ***	-16.190
R ²		0.136		0.137	
F		41.590 ***		40.400 ***	
N		6954		6954	

Note: *, **, and *** respectively mean the significance levels of 1%, 5%, and 10%.

We have come to the conclusion that there is a positive correlation between management power and enterprise performance. Relevant suggestions have been put forward against the problems existing in enterprise performance under the authority of the management:

1. For the board of directors: it needs to fully empower the management, so that the latter has enough power to drive change at the enterprise and thus improve enterprise performance. On the other side, self-discipline is particularly important for management itself, which requires full analysis and appropriate utilization of environmental uncertainty, and appropriate avoidance of disadvantages such as environmental uncertainty. Only then management would be able to promote competitiveness and boost performance of the enterprise.

When it comes to corporate strategic change, although centralized management power is more likely to promote strategic change and improve corporate performance, the management should be aware that such empire-building style and overconfidence will generate power expansion, which, in its turn, will lead the enterprise into a dilemma. Management should always be self-disciplined, make arguments repeatedly, be accountable to shareholders and creditors, commit to increasing the long-term value of business, and choose the most reasonable enterprise development strategy to ensure that the long-term value of the business is increasing.

2. For enterprises: they should continuously perfect their own governance structure, strengthen the checks and balances mechanisms in company management, formulate reasonable incentives and supervision systems, and improve the information disclosure system.

Perfecting the internal governance structure with reasonable authorization

To establish a comprehensive organizational structure consisting of stockholders, the board of directors, the board of supervisors and management, and clarify the power

THE INFLUENCE OF MANAGEMENT POWER

distribution and responsibility functions for each department. To implement the checks and balances system between the decision-making body and the executive body, fully empowering management, intensifying the supervisory mechanism, and avoiding the self-serving psychological behavior that might emerge due to the expansion of powers.

Perfecting the internal board governance

Because of high monitoring costs and coordination costs as well as “buck-passing” between directors, the large-scale board of directors may be harmful in terms of supervisory benefits. The inaction of the board members and their blind compliance to management may reinforce self-interest motivation among management.

Therefore, the number of internal executive directors should be decreased, while the proportion of external independent directors should be increased. The role of the board of directors in supervision and management should be strengthened, and the blind compliance of the board members to the general manager should be completely eradicated.

This would definitely strengthen the supervision of management and the position of independent directors, enabling them to express impartial and independent opinions from the perspective of a third party.

Perfecting the information disclosure system

It is necessary to establish and/or perfect a unified management information disclosure platform, conduct unified integration of the company's management qualifications, performance and information disclosure systems. This would help with creating conditions for investors to objectively evaluate management and supervise its behavior, on the one hand, and promote management self-restraint on the other hand.

References

- Cao, Q., Simsek, Z. & Zhang, H. (2010). Modelling the joint impact of the CEO and the TMT on organizational ambidexterity. *Journal of Management Studies*, 47(7): 1272-1296.
- Elbanna, S. & Child, J. (2007). Influences on strategic decision effectiveness: Development and test of an integrative model. *Strategic Management Journal*, 28(4): 431-453.
- Finkelstein, S. (1992). Power in top management teams: Dimensions, measurement, and validation. *Academy of Management journal*, 35(3): 505-538.
- Hanbrick, D.C. & Mason, P.A. (1984). Upper echelons organization as a reflection of its managers. *The Academy of Management Review*, 9(2): 193-206.
- Haynes, K.T. & Hillman, A. (2010). The effect of board capital and CEO power on strategic change. *Strategic Management Journal*, 31(11): 1145-1163.
- Kimberly, J.R. (1979). Issues in the creation of organizations: Initiation, innovation, and institutionalization. *Academy of Management Journal*, 22(3): 437-457.
- Tang, J., Crossan, M. & Rowe, W.G. (2011). Dominant CEO, deviant strategy, and extreme performance: The moderating role of a powerful board. *Journal of Management Studies*, 48(7): 1479-1503.

Wiedner, R., Barrett, M. & Oborn, E. (2017). The emergence of change in unexpected places: Resourcing across organizational practices in strategic change. *Academy of Management Journal*, 60(3): 823-854.

<i>Paper submitted</i>	<i>04 December 2020</i>
<i>Paper accepted for publishing</i>	<i>20 January 2021</i>
<i>Paper published online</i>	<i>30 September 2021</i>