The Effects from Asian's Financial Crisis: Factors Affecting on the Value Creation of Organization

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Abstract

This paper elaborates the study of the effects from Asian's financial crisis on Thailand, focusing on the factors that affect the Value Creation of Organization. Secondary data was examined in order to construct a proposed relating to these factors. The value creation model was developed based on Fahy, Roche and Weiner. The findings state the factors affecting the organizational value creation have positive direct effect on corporate social responsibility, corporate governance and innovative organization.

Keywords: Value Creation, Corporate Governance, Corporate Social Responsibility, Innovative Organization, Financial Crisis

1. Introduction

The Asian's financial crisis began when the Thai government decided on devaluation of the Thai baht on July 2, 1997, a date generally considered to be the starting point of the crisis. The July beginning point also corresponds to the date when the movement of composite stock indexes for all five countries from 1995 through 1999 began moving downward together. The ending point of the crisis period, August 1998, corresponds with the date on which the indexes began a sustained upward trend (Mitton, 2002).

In 1998, the world economy has entered a slowdown, which originated in South East Asia. The Asian Crisis has caused severe economic turbulence in the economies of South East Asia since the summer of 1997. There have been two distinct phases to the Asian Crisis: the first from July - December 1997, when the first international assistance was provided, and the second since mid-1998, when the turbulence has spread beyond the region as Russia, China and Brazil have shown signs of contagion. This crisis was initially a financial one as speculation caused funds to drain out of Thai and Korean currencies and stock markets. The crisis eventually caused economic growth rates to collapse in several South East Asian countries.

The Asian financial crisis involves four basic problems or issues: (1) a shortage of foreign exchange that has caused the value of currencies and equities in Thailand, Indonesia, South Korea and other Asian countries to fall dramatically, (2) inadequately developed financial sectors and mechanisms for allocating capital in the troubled Asian economies, (3) effects of the crisis on both the United States and the world, and (4) the role, operations, and replenishment of funds of the International Monetary Fund (Nanto, 1998).

The Asian financial crisis took hold of the economies of four Asian countries, Indonesia, South Korea, Malaysia and Thailand, all four countries suffered reduced profitability and lower market and book values (Friday et al., 2006). Productivity in Thailand decreased, unemployment became high, and businesses went bankrupt causing the worst recession in Thai postwar history. While Japan has been a crucial source of investment for the rest of the region, especially in the wake of the so-called Plaza Accord, which saw a fundamental restructuring of Japanese industry as a consequence of the yen's appreciation.

The massive outflows of Japanese capital that intensified at the end of the 1980s had an important global impact, but were especially influential among the smaller Southeast Asian economies (Beeson, 2002). From 2000 to 2007, Northeast Asian countries (China, Japan, Korea, and Taiwan) posted an annual real GDP growth of 4.4%, Southeast Asian economic (Indonesia, Malaysia, the Philippines, Singapore and Thailand) also achieved annual growth rates in excess of 5% (Kuroiwa & Kuwamori, 2010).

Figure 1 shows growth performances vary substantially among developed and developing countries. African growth exceeds OECD growth by margins not seen for 25 years; East Asia's growth is diverging as much as it did during the last significant global economic downturn in the early 1990s.

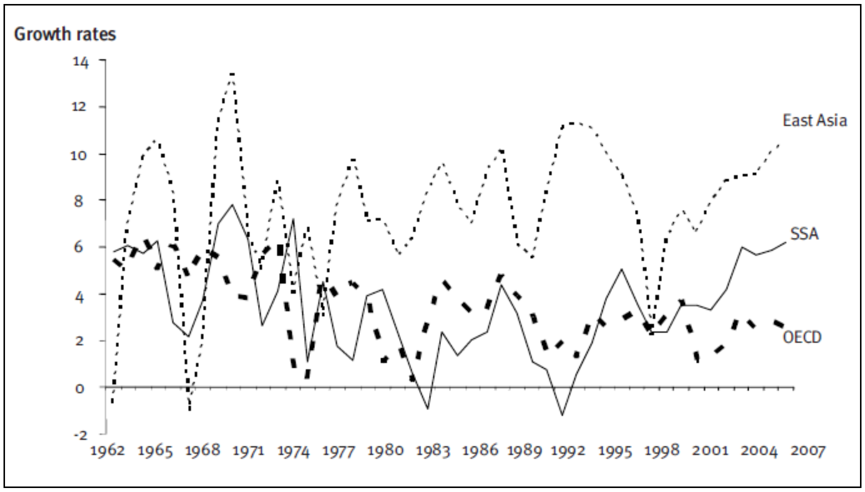

Figure 1: Growth rates have been diverging, but for how long (Velde, 2008)

Since the financial crisis struck in the U.S. in the fall of 2008 *(Hamburger crisis)*, the growth of East Asian economies has decelerate dramatically in many countries after the crisis. In Southeast Asia, Singapore was affected most strongly by the crisis, followed by Malaysia and Thailand (Kuroiwa & Kuwamori, 2010).

Figure 2, illustrates how the financial crisis of Thailand in 1997 or *Tomyumkung* crisis, led to the bankruptcy of companies; which were then need to be restructured. The researcher was necessary because of the going concern to increase shareholder and maximize profit from operation. We believe that companies can create firm's value that generates revenue over and above the economic costs and maximize shareholder wealth. The issues discussed have motivated the development of above the research question in this study--what factors and models contribute to cresting the firm's value.

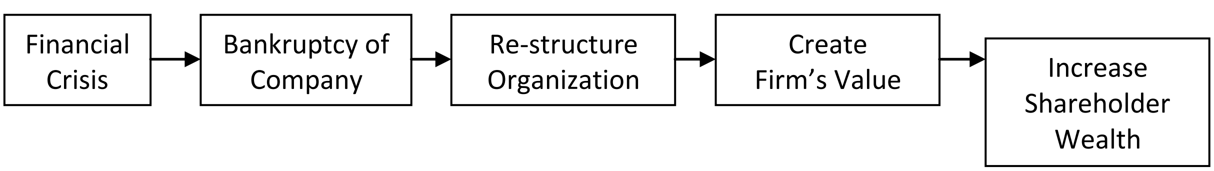

Figure 2: Financial crisis increase shareholder wealth

This paper elaborates the study of the effects from Asian's financial crisis, focusing on the factors that affect the Value Creation of Organization. Secondary data from prior research related to the financial crisis since 1997 was examined in order to construct a proposed the value creation model that linkage between value creation and factors affecting on the value creation. This study is useful for listed companies on stock exchanges of Thailand.
The value creation model was developed based on the enterprise governance framework (Fahy et al., 2005), which is based on the principle that good governance alone cannot make an organization successful. The emerging framework, under the three dimensions of Performance, Conformance and Corporate Responsibility, addresses the primary concerns that boards and senior executives must effectively manage to ensure the delivery of long--term value to stakeholders.

The Stakeholder Theory (Freeman, 1984) and Agency Theory (Jensen & Meckling, 1976) support the enterprise governance in creating long-term value to stakeholders. This study defines the Conformance factor as Corporate Governance (CG), Corporate Responsibility as Corporate Social Responsibility (CSR) and Performance as Innovative Organization. Innovative Organization includes people, processes and systems leading to successful performance capability and competitive advantage.

2. Methodology Design

This paper is documentary research. Secondary data was examined in order to construct a proposed the model of the linkage between value creation and factors affecting on the value creation.

3. Value Creation

Value Creation are management generates revenue over and above the economic costs or creating the firm's value or creating maximize shareholder wealth. The strategies for creating value shifted from managing tangible assets to knowledge-based strategies that create and deploy an organization's intangible assets. These include customer relationships, innovative products and services, high-quality and responsive operating processes, skills and knowledge of the workforce, the information technology that supports the work force and links the firm to its customers and suppliers, and the organizational climate that encourages innovation, problem-solving, and improvement.

The intangible assets have two important factors. First, the value from intangible assets is indirect. Assets such as knowledge and technology seldom have a direct impact on revenue and profit. Improvements in intangible assets affect financial outcomes through chains of cause-and-effect relationships involving two or three intermediate stages (Huselid, 1995; Becker & Huselid, 1998). Financial outcomes are separated causally and temporally from improving employees' capabilities. The complex linkages make it difficult, if not impossible, to place a financial value on an asset such as workforce capabilities or employee morale, much less to measure period-to-period changes in that financial value. Second, the value from intangible assets depends on organizational context and strategy. This value cannot be separated from the organizational processes that transform intangibles into customer and financial outcomes. The balance sheet is a linear, additive model. It records each class of asset separately and calculates the total by adding up each asset's recorded value. The value created from investing in individual intangible assets, however, is neither linear nor additive (Kaplan & Norton, 2001). The value creation will success or not, value creation is dependent variable and measured by the firm's value that has four components such as growth in sales, operating profitability, capital requirements and weighted average cost of capital which those components can developed to this equation that the equation are two components: The dollars of operating capital those investors have provided; The additional value that management has added or subtracted, which is equivalent to market value added (MVA) (Brigham & Ehrhardt, 2002).

4. Factors Affecting on the Value Creation

4.1 Corporate Social Responsibility

Corporate Social Responsibility (CSR) is a company's obligations to be accountable to all of its stakeholders in all its operations and activities. There are four parts of CSR, categorized in terms of economic, legal, ethical, and philanthropic responsibility (Carroll, 1991). CSR has increased significantly during the last decade. Many firms started reporting about their ethical, social and environmental conduct. And in marketing, being green and social is positioned as a relevant product and firm characteristic. In academic research, CSR has become a topic of interest too (Scholtens, 2008).

The importing of CSR in Asian countries has led to various structural changes in the business community. CSR of Japanese Corporation is regarded as the professionalization, whereas China companies would view as the importing of dominant Western views. In Malaysia and Thailand, there is direct engagement with CSR debates and practices (Fukukawa, 2010). Moreover CSR issues in Asia encapsulate problems such as the lack of or disparities in education, poverty, labour rates and standards, human rights, health care, corporate governance and vulnerability to natural disasters (Chapple & Moon, 2007). In Thailand, CSR policy integration should ensure that companies are not selective in their CSR contribution and disclosure of their policies and achievement should be used to enhance transparency and accountability in the practice of corporate social responsibility.

CSR in Thailand still needs to be more effectively implemented and regulated with regard to the environmentally friendly nature of the corporate production process and in ensuring that internal stakeholders, such as workers and employees, are suitably treated in terms of pay, adequate facilities, equal male-female opportunities, childcare provision and safe working conditions. CSR activities as implemented by companies in Thailand still at best only partially respond to or reflect the social and environmental needs of Thai society (Kuasirikun, 2010).

CSR is similar to and different from other traditional corporate market activities if they are to pursue value creation through CSR. An understanding of the conditions under which CSR may create value is crucial to developing a theory of strategic CSR. All firm activities may add value in the moment that they reduce costs, create product differentiation, or move customers to buy from one firm rather than another. CSR is an opportunity to re-configure the competitive landscape as well as to develop distinctive and dynamic resources and capabilities (Husted & Allen, 2007). The linked between CSR-business strategy and business benefits. It was apparent that including CSR as an integral part of business strategy is highly beneficial in terms of CSR evaluation and measurement, and determining its impact on profit (TW& MV, 2001). Related study finding the business awareness of the relationship between socially responsible investment and reputation, linked to their desire to have a positive impact on the societies in which they operate, indicates that business strategies play an important role in CSR; also, that such an approach to CSR may result in higher financial flexibility in terms of increased social investment (CL, &RL, 2005). Thus, CSR can increase sales growths, reduce costs to increase operating profitability, and reduce investment risk and lost of confidence among stakeholders. The underlying assumption is that Corporate Social Responsibility brings about value creation. The importance of this construct and related assumption for effective value creation is stated in the following proposition.

Proposition1: Value creation is a positive function of Corporate Social Responsibility.

4.2 Corporate Governance

Corporate Governance (CG) is the process of supervision and control intended to ensure that the company's management acts in accordance with the interests of shareholders (Parkinson, 1994). At its core, corporate governance is concerned with identifying ways to ensure that strategic decisions are made effectively. Governance can also be thought of as a means to establish harmony between parties (the firm's owners and its top-level managers) whose interests may conflict (Hitt et al., 2011). Agency theory suggests that governance matters more among firms with greater potential agency costs. Rational investors are unlikely to value safeguards against unlikely events. Yet, few studies of the relation between governance and firm value control for investor perceptions of the likelihood of agency conflicts. Firm value is an increasing function of improved governance quality among firms with high free cash flow. In contrast, governance benefits are lower or insignificant among firms with low free cash flow. Chi and Lee (2010) showed that un-controlling for this conditional relation between governance and firm value could lead to erroneous conclusions that governance and firm value are unrelated. Corporate governance structures used in Germany, Japan, and China differ from each other and from the structure used in the United States. The U.S. governance structure focused on maximizing shareholder value. In Germany, employees, as a stakeholder group, take a more prominent role in governance. By contrast, Japanese shareholders played virtually no role in the monitoring and control of top-level managers. However, now Japanese firms are being challenged by activist shareholders (Hitt et al., 2011). Related studies suggest that good corporate governance serves as an effective mechanism to alleviate the opportunistic behaviors of management, to improve a company's reporting quality, and to increase firm value (Chen et al., 2009; Bhagat & Bolton, 2008; Denis & McConnell, 2003).

The Asian crisis has effected corporate governance and accounting system on the valuation of book value and earnings. Results indicated that the value relevance of earnings in Indonesia and Thailand was significantly reduced during the Asian financial crisis while the value relevance of book value increased. In Malaysia, the value relevance of both earnings and book value decreased during the crisis. In Korea, neither book value nor earnings was significantly impacted by the crisis. It indicates that the level of corporate-governance mechanisms has an impact on the extent of changes in the value relevance of book values, but not earnings. Specifically, the value relevance of book value declines when corporate governance is weak (Friday et al., 2006). Wruck and Wu (2009) made three conclusions from their study. First, new relationships drive the positive stock price response at announcement; placements lacking new relationships are non-events.

Second, investors with relationship ties to the issuer are more likely to gain directorships as part of the placement. Third, new relationships are associated with stronger post-placement profitability and stock price performance. Overall, their findings are consistent with private placements creating value when they are associated with increased monitoring and strong governance. The underlying assumption is that Corporate Governance brings about value creation. The importance of this construct and related assumption for effective value creation is stated in the following proposition.

Proposition 2: Value creation is a positive function of Corporate Governance.

4.3 Innovative Organization

Innovative Organization is the implementation of a new or significantly improved product (goods or service), or process, a new marketing method, or a new organizational method in business practices, workplace organization or external relations (OECD, 2005). Firms can derive four basic benefits for Innovative Organization: (1) increased market size; (2) greater returns on major capital investment or on investments in new products and process; (3) greater economies of scale, scope, or learning; and (4) a competitive advantage through location (e.g., access to low-cost labor, critical resources, or customers) (Hitt et al., 2011).

The innovative capacity of a country is the basic driving force behind its economic performance; it provides a measure of the institutional structures and support systems that sustain innovative activity. Furman, Porter and Stern presented frames a concept of national innovation capacity measured by patenting rates, and estimates its institutional sources for a group of 17 OECD countries (Moe, 2003). Innovation is widely regarded as the central process driving economic growth and the competitiveness of nations. But it takes a long time for a country to reach the technological frontier where innovation becomes a principle driver. In the case of the outstanding latecomer economies of the 19th century, Germany and the US, it took from 50 to 100 years for these countries to catch-up with and overtake the leader, the UK. In the 20th century, Japan has caught up with the leaders, and in the postwar period, the outstanding cases have been those of the East Asian "Tiger" economies, Korea, Taiwan, Hong Kong and Singapore, described by the World Bank as the "East Asian Miracle" (World Bank, 1993). Taiwan is equipped with an innovation system that is much more flexible and suited to dealing with change than those of Japan and South Korea. Thus, it is also conspicuous how much better Taiwan fared through the crisis than Japan and South Korea (Moe, 2003).

Morales et al. (2007) study on influenced of personal mastery on organizational performance through organizational learning and innovation in large firms and SMEs. Most previous publications agree that organizational innovation influences performance positively such as Irwinetal (1998). They used a resource-based view to show the positive relationship between technological innovations and organizational performance. Hurley and Hult (1998) demonstrated positive relationships between organizational innovation, a market orientation, and organizational learning, showing that all of these elements together influenced the potential for good performance. Senge (1990) also indicates that leaders' positive view of innovation is an essential factor for its implementation and development within the firm and improvements in organizational performance. The underlying assumption is that Innovative Organization brings about value creation. The importance of this construct and related assumption for effective value creation is stated in the following proposition.

Proposition 3: Value creation is a positive function of Innovative Organization.

The conceptual framework of the value creation model is designed based on secondary data from prior research related to the financial crisis since 1997. This paper identifies the value creation model that creates a firm's value and going concern from successful performance of the three factors: Corporate Social Responsibility, Corporate Governance and Innovative Organization. Factors and directions of influence have positive direct factors affecting the value creation. The relationships between the constructs are illustrated in the model in Figure 3. This simple model depicts the fundamental relationships between key constructs that influence value creation. This model paves the way for empirical examination of the constructs that bring about value creation.

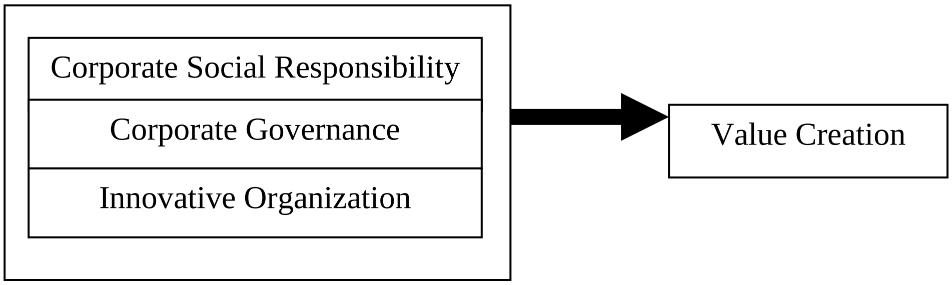

Figure 3: The Value Creation Model

5. Conclusion and Further Research

The Asian's financial crisis that began in Thailand in 1997 *(Tomyumkung crisis)* or the financial crisis in U.S. in 2008 *(Hamburger crisis)* has brought bankruptcy of companies. Those companies have going concern to increase shareholder and maximize profit from their operation. Value creation model identify factors that create a firm's value and going concern from successful performance of the three factors: Corporate Social Responsibility, Corporate Governance and Innovative Organization. This model can help companies to create firm's value that generates revenue over and above the economic costs or maximizes the shareholder wealth. In addition, the boards and senior executives can effectively manage to ensure the delivery of long--term value to stakeholders.

Further research related to this paper should include empirical testing in the field. This could lead to refinement and further development of propositions related to factors that contribute to value creation in collaborative context. In particular, instrumentation for surveys and interviews is required to collect data in organizations and individuals interacting in their respective value creation of organization.

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