PHILIPPINE MANAGEMENT REVIEW

2018

A PUBLICATION
OF THE
CESAR E.A. VIRATA SCHOOL OF BUSINESS
UNIVERSITY OF THE PHILIPPINES

IN COOPERATION WITH THE
U.P. BUSINESS RESEARCH FOUNDATION, INC.

VOLUME 25
ISSN 1656-5363

PHILIPPINE MANAGEMENT REVIEW

2018 VOLUME 25

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Comparative Market and Industry Analysis of Traditional Taxi Services and Transportation Network Vehicle Services in Metro Manila

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Amidst its highly contested entrance into the Philippine market, Transportation Network Vehicle Services (TNVS) have significantly affected the life of the typical Metro Manila commuter. This study aimed to contextualize the consumer decision process behind the selection of private land transportation options among Metro Manila users, in order to direct policy discourse for policymakers and to define the competitive dimensions in the industry for key players. In particular, the study aimed to understand the reasons behind usage and preference of traditional taxi services (TTS), Grab, and Uber – the leading private transport brands in the city. The results were intended as input into a Usage, Attitude, and Image (UAI) market research study to accurately depict consumer response to the brands. Using market reports and in-depth interviews, the study described the key service attributes that consumers consider and evaluate, compared against the core service features of these transport options. A comprehensive industry analysis was done to compare and contrast the brands objectively. The fundamental service attributes were broadly defined as ride completion, safety, value for money, convenience, and ride experience, each composed of sub-attributes or features that all lead to customer satisfaction. The study concludes that multi-attribute variable comparison through conjoint analysis will be more suitable than a UAI study to depict consumer acceptability and preference for TNVS brands.

Keywords: Transportation Network Vehicle Services, Transportation Network Companies, Grab, Uber, Taxis, Metro Manila, Qualitative Consumer Research, Consumer Decision Making Process, Services

On 11 July 2017, the Philippine Land Transportation and Franchising Regulatory Board (LTFRB) issued a consolidated show-cause order addressed to My Taxi PH, Inc. (Grab) and Uber Systems, Inc. (Uber). Following a hearing where Grab and Uber representatives openly admitted to operating at least 80% of their fleets without provisional authority permits (PAs) or certificates of public conveyance (CPCs), the LTFRB imposed a fine of PHP 5 million to each transportation network company (TNC). This decision glossed over the fact that LTFRB had publicly stopped the processing and release of PAs and CPCs since 22 July 2016, citing the need to review existing policies.[1] This effectively limited the fleet size of both Grab and Uber.

If LTFRB followed their own regulations for the management of TNCs published as LTFRB Memorandum Circular No. 2015-016, titled the Terms and Conditions of a Certificate of Transportation Network Accreditation and released in May 2015, both companies faced the cancellation of accreditation and would have had to shutter their national operations.[2] In lieu of this sanction, LTFRB instead decided to impose a fine. On top of this fine, both Grab and Uber were tasked to submit to a list of administrative requirements in the screening and deployment of drivers in Metro Manila, including the immediate discontinuation of connecting riders to trips made with unaccredited drivers. Grab and Uber were granted 15 days to comply with the terms and conditions governing TNCs, or erring drivers would face up to three months' detention, a fine of PHP 120 thousand, and criminal charges as colorum vehicle drivers (i.e., public vehicles operating without a franchise). Meanwhile, LTFRB has made no definite confirmation that new and pending applications for Grab and Uber drivers would be granted permits.

Consumer response to this decision was swift. On the same day that LTFRB released the show-cause order, James Deakin, motoring journalist for the Philippine Star, posted a poll on his Facebook page to invite his followers to show support for Grab and Uber, as well as to challenge LTFRB to

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[1] Talabong, 2017

[2] *ibid*

Philippine Management Review 2018, Vol. 25, 27-52.

Assessment of the Conduct, Structure, and Performance of the Philippine Telecommunications Industry

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An application of the Structure-Conduct-Performance approach on the nationwide Philippine telecommunications industry, for the period 2011 to 2016, showed that the market structure is highly concentrated, with significant barriers to entry, such as capital, regulatory, and legal requirements. These entry barriers lower market contestability, or the threat of a new entrant challenging the incumbents. Nevertheless, the incumbents foil each other from exercising excessive market power of raising prices, or reducing service quantity/quality. Market structure strongly influences the incumbents' conduct, with the two players mirroring each other's strategic behaviors, particularly in terms of product and pricing, and service quality. Both market structure and incumbents' conduct impact the market performance, with industry EBITDA margins, return on equity, and return on assets having been healthy.

Keywords: Market Structure, Conduct, Performance, Telecommunications Industry, Philippines

1 Introduction

The telecommunication (telecom) sector plays a critical role in contributing directly to the Philippine economy. An International Telecommunication Unit (ITU, 2012) study estimated telecom revenues account for 2.5% (or USD 5.3 billion) of the country's Gross Domestic Product (GDP), contribute about USD 267 million annually to economic growth, generate 1.0% of total tax collections, and employ 525,000 skilled workers and professionals.

Indirectly, the societal importance of telecoms is well accepted and broadly understood, reflected in its near-ubiquitous penetration and use. One, it delivers a technological foundation for communications, which plays a central role in the fundamental operations of a society — from business to government to families. Two, it enables participation, and development of people in communities disadvantaged by geography. Three, it provides vital infrastructure for national security — from natural disaster recovery, to communication of vital intelligence (Lucky & Eisenberg, 2006).

For the period 2011 to 2016, several significant changes occurred in the Philippine telecom industry. Mobile density increased over the five year period from 99% to 124%, aided by: (1) sustained annual capital expenditure (capex) of the telecom companies (telcos) of over 20% of service revenue for the period 2014 to 2015; and (2) innovative buffet pricing and product bundles to attract and retain customers. Though telecom prices decreased and quality improved, compared to other countries, prices remain moderately high, serving as a barrier to usage, and quality was still relatively poorer. Regulators, who can influence these prices and quality, and overall industry competition, were passive and behaved administratively, and were not pro-active policy formulators and implementers (Patalinghug & de Llanto, 2005).

This paper aims to assess this condition existing in the Philippine telecom industry using the Structure-Conduct-Performance (SCP) framework. The SCP approach suggests that the industry's performance, the success of an industry in producing benefits for consumers, depends on the conduct, behavior of sellers and buyers, which depends on the structure of the market. The structure, in turn, depends on basic conditions, such as technology and demand for a product. Typically, structure is summarized by the number of firms, or some other measure of the distribution of firms, such as the relative market shares of the largest firms. Developed by Edward Mason in the 1930s, the SCP approach revolutionized the study of industrial organization (IO) by introducing the use of inferences from microeconomic analysis (Perloff, Karp, & Golan, 2007).

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Social Distance, Connectedness, and Product Familiarity on Endorsement Evaluations: An Experimental Approach

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Contrary to previous research on social distance suggesting that widened social distance is linked to power, this paper argues that indeed narrowing social distance creates increased favorable evaluations in the context of endorsements. By experimentally framing the source such as celebrity endorsers into a close relationship social category (e.g., 'friend', 'family'), product attitudes and purchase intentions increase. This effect was mediated by connectedness and was moderated by the familiarity of consumers towards the product. The research context is in the Philippines where celebrity culture is predominantly relational due to its highly collectivistic culture. Implications on close relationship and relational paradigm in celebrity endorsements are discussed.

Keywords: celebrity endorsements, connectedness, Philippines, product familiarity, social distance

Acknowledgment: The author wishes to thank the University of the Philippines Ph.D. Incentive Award for funding this research.

1 Introduction

Celebrity endorsements remain a major investment among advertisers in the United States (Nielsen Media Research, 2015) as they are also widespread in Asia: 70% of South Korean and Japan's commercials feature celebrities, and the strategy has gained momentum in China, India, and The Philippines (Euromonitor International, 2014; Sharma, 2012). These Asian markets have shifted to a consumer culture where celebrities are staple components of consumption discourses (Fitzsimmons & Lent, 2013). As celebrities have come to play a major part in modern, consumption culture, ways on how marketers can utilize celebrity power to create and appeal to emotional bond with consumer and to avoid animosity (Leong et al., 2008) should be given attention in celebrity endorsement research streams (e.g., Chao, Wührer, & Werani, 2005; Escalas & Bettman, 2009; Euromonitor International, 2014; Hung, Chan, & Tse, 2011; Thomson, 2006). Grounded in these issues, the industry report of Euromonitor identified major practical challenges faced by marketers in celebrity endorsement strategy, like how celebrities can emotionally appeal and bond with consumers. This study attempted to address such practical issues through theoretical explorations and development on the notion of narrowed social distance as conveyed by celebrities.

Celebrity endorsement definitions and approaches are traditionally in the models of source credibility (Goldsmith, Lefferty, & Newell, 2000; Hovland & Weiss, 1951), source attractiveness (Ohanian, 1991; Stephens & Rice, 1998), and match-up hypothesis (Rifon, Choi, Trimble, & Li, 2004). As the area of celebrity endorsements grows interestingly in the recent decades of consumer research, scholars have been devoted to understanding the underlying consumer processes that eventually elicit effectiveness of marketing campaigns (Keel & Nataraajan, 2012). Dominant existing models of celebrity influence have become mature, and much has been written on these models that serve as framework for celebrity selection (Erdogan, 1999). Celebrities may provide central information when an aspect of the celebrity matches the product (e.g., match-up, credibility, and attractiveness linked to the product category). However, such traditional models may pose limitations. For example, the source credibility and meaning transfer—or perceptions about a celebrity transferred to brands (McCracken, 1989)—cannot account for changes in the consumer and the celebrity and could be regarded as one-time and transactional advertising model (i.e., one-time transaction, short-term customer relationship versus a "relational model") (Kimelfeld & Watt, 2001). Meanwhile, the image congruence or product match-up model should regard the integral changes of

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Top Management Team Composition and Firm Performance

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This study investigated the relationship between top management team's (TMT) demographic characteristics and firm performance of listed Philippine holding firms. The TMTs helming these companies have had significant economic impact given their firms large—often dominant—presence in diverse industries. Using organizational demography, a panel of TMT's demographic characteristics (tenure, educational and functional background, age, and gender) and firm performance (revenue growth and return on assets) were regressed. Results showed that increased compositional difference in team member's functional background and gender negatively affected firm performance. Hence, TMT composition matters and the thoughtful selection of its members vital.

Keywords: Top management team, Social identity and self-categorization, Similarity-attraction, Organizational demography, Upper echelon perspective, Firm performance, Holding firms, Philippines

1 Introduction

The importance of a firm's top management team (TMT) cannot be overstated. Its role in deciding the direction of the organization and in establishing organizational policies and philosophies affect all organizational members and ultimately the success of the firm (Robbins, DeCenzo, & Coulter, 2015). The team's composition strongly influences its ability to carry out its role.

TMT members ideally have substantial experience and expertise, as well as have significantly developed their critical management skills. Many top-level managers who become part of the TMT often have mastery over their functional disciplines, and/or depth of industry experience, preferably both. Furthermore, TMT members have honed their conceptual, interpersonal, technical and political skills (Robbins et al., 2015).

Hambrick and Mason's (1984) upper echelon perspective have reinforced this importance of TMT, positing that top executives matter. TMTs have an important impact on organization outcomes because of the decision they are empowered to make for the organization. They ventured further and stated that organization outcomes, strategic choices, and performance levels are practically predicted by managerial background characteristics. This perspective spurs much TMT demographic research[1], with the amount of diversity[2] within the group as one of the relevant focus of these studies.

Interest and research in diversity have grown significantly over the last few decades, driven by shifts in population demographics, and new management methods that require teamwork, to name a few reasons. Though theories of social identity and self-categorization, and similarity-attraction purported that diversity has a negative effect on group processes and performance, research on whether diversity has a positive or negative impact is inconclusive (Williams & O'Reilly III, 1998; Glick, Miller, & Hubber, 1993).

Pfeffer's (1985) organizational demography focused diversity research to the more measurable demographic variables and its effect on the organization's processes and outcomes. He argued that demography might explain more variance in the dependent variable (e.g., firm performance, turnover) than would the presumed intervening construct that has often been underlying mental processes. Demography offers the advantages of objectivity, parsimony, comprehensibility, and logical coherence of cognitive resources.

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[1] E.g., Carpenter, 2002; Eisenhardt, Kahwajy, & Bourgeois, 1997; Simons, 1995; Wiersema & Bantel, 1992.

[2] Diversity is a characteristic of a group of people where differences exist on one or more relevant dimensions. It is a group, and not an individual characteristic (Hitt, Miller, & Colella, 2011).

Philippine Management Review 2018, Vol. 25, 99-114.

Stock Market Betas for Cyclical and Defensive Sectors: A Practitioner's Perspective

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Companies can be categorized as cyclical or defensive based on their performance in various phases of the business cycle. Cyclical companies exhibit performance directly related to the business cycle, while defensive companies tend to display stability in the face of economic booms and busts. Given the link between earnings and stock price, as well as the stock market index as an indicator of the economic cycle, cyclical company stocks are commonly expected to exhibit returns highly correlated to the stock market index, while returns on defensive company stocks are generally believed to display low correlation to index returns. The above is especially useful in equity valuation, particularly in the use of the capital asset pricing model (CAPM) and the beta coefficient, where analysts typically perform valuation sense-checks on the beta variable – cyclical company stocks should generally have beta coefficients greater than 1, while defensive company stocks should generally have beta coefficients less than 1. Based on selected Philippine stock price data, the above sense-check holds true for defensive company stocks, while it does not hold true for cyclical company stocks.

1 Introduction

1.1 The Concept of Cyclical and Defensive Industries

Finance theory suggests that companies can be categorized based on their performance in various phases of the business cycle, particularly in expansions and recessions. **Cyclical companies** are firms that tend to depend on the business cycle for their performance. Cyclical firms are typically characterized by sales and earnings volatility as well as significant business risk, especially since product and/or service demand is affected by the current state of the economy. On the other hand, **defensive companies** are those companies which maintain stable performance in the face of business booms and busts. These companies are typically characterized by low business risk in the sense that the level of demand for their products and/or services is sustained, especially during economic downturns (Reilly & Brown, 2003).

1.2 Earnings as Key Driver to Stock Price Performance

It is generally accepted in the field of finance that a company's earnings power is a key driver of investment value, highlighted by the empirical research conducted by Ball & Brown (1968), which was recently replicated by Dechow, Sloan, and Zha (2014). Empirical research has shown that relative differences in the earnings power of firms, as measured by price-earnings ratios, are significantly related to long-run average stock returns. As such, in conjunction with the above discussion on cyclical and defensive industries, if a defensive company exhibits stable earnings throughout the business cycle, then that particular company's stock should also exhibit price stability. Furthermore, since stock market indices are generally representative of the economic conditions of a particular market, determining the sensitivity of a company's earnings to the business cycle is tantamount to determining the sensitivity of a company's stock price to a stock market index. Following the general logic of the above discussion, the returns on the stocks of defensive companies should reflect low correlation with the returns on the market index, which is characterized by a low stock market beta. Similarly, the returns on the stocks of cyclical companies should reflect high correlation with the returns on the market index, which is characterized by a high stock market beta.

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Survey of Valuing Stock Options of Selected Publicly Listed Philippine Companies

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Firms have the flexibility to choose the valuation model and the sources for input variables in determining the fair value of stock options. Thus, firms may be motivated to choose the variables which will result in lower fair value for the stock options. This will translate to lower compensation expense and higher net income. This paper aims to show how selected publicly listed Philippine companies determine the fair value of their stock options.

1 Introduction

Stock options are increasingly becoming attractive compensation packages for managers. In the US, participants of Employee Stock Option Plans ("ESOP") have increased from 10.23 million in 2002 to 14.05 million in 2014, a 37.3% increase ("ESOPs by the Numbers", 2017). In the Philippines, among the 30 companies in the Philippine Stock Exchange Index ("PSEi"), 12 have stock option plans for management. Companies use them primarily to align managerial and stockholder interests. Other reasons include scarcity of cash, employee retention, and accounting and tax treatment (Damodaran, 2005). These stock options are charged to the company as compensation expense over the vesting period, which eventually affects the firm's net income. The compensation expense is determined by a valuation model used to determine the stock options' fair value (Echanis, 2016). Accounting standards do not suggest a specific valuation model to use, which allows companies to be flexible with their option valuation. This flexibility on the choice of valuation model and the variables used provide opportunities for companies to manage the amount of compensation expense to be recognized. This paper examines the option valuation practices of 20 publicly-listed Philippine companies with stock option plans (12 PSEi and 8 non-PSEi). The appropriateness of their choices will be assessed based on theoretical frameworks behind the valuation models used.

2 Literature Review

Stock options give the employer the following advantages: (1) allow start-ups to recruit highly-skilled managers and staff, (2) provide a more powerful incentive than bonuses/salaries, (3) act as a selection tool in recruitment and retention, (4) tie performance targets to long-term business strategies and (5) reduce agency problem between managers and owners. Because the vesting period is set in the future, managers focus not only on the short-term, but also on the firm's long-term financial performance (Echanis, 2016). On the contrary, Borja and Ang (2003) stated that stock options do not actually mitigate agency costs; they even exacerbate it because managers make decisions that lead to increased volatility of the underlying stock prices, which in return, increase the value of options.

The amount of compensation expense from stock options is based on the fair value of these options at grant date. Such fair value is determined using an option pricing model. This compensation expense is recognized over the stock options' vesting period. These stock options are treated as equity if equity-settled, and liability if cash-settled.[1] However, Kirschenheiter, Mathur, & Thomas (2004) argued that equity treatment distorts performance measures because (1) deferred taxes on nonqualified options are not included as equity, (2) combining the interests of option holders and equity holders provides average earnings which are not representative of either group and (3) cash flow statement projections are overstated to current equity holders by the pretax value of projected option grants. According to them, these distortions will be avoided by always treating stock options,

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[1] Equity-settled – equity instruments of the company are used to pay the share-based compensation; Cash-settled, cash is used to pay the share-based compensation