ANALYSIS OF ECONOMIC VALUE ADDED AS A FINANCIAL PERFORMANCE MEASURE

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ABSTRACT

Creating value is the most important factor in the management of firms. The goal of a finance function is apparently stated as an increase in the shareholders’ wealth. This has caused a shift in the management thinking to an extent that all functions of the firm get involved in the process of value creation. Value-based (VB) financial performance measures are often advanced as improvements over other measures. Furthermore they attempt to remove some accounting distortions resulting from the limitations of conventional accounting information. An attempt has been made in this study to establish the linkage between the other value based performance measure and Economic Value Added (EVA). Economic Value Added is a financial performance measure being adopted by many companies. This new metric, trademarked by Stern Stewart and Company, is a profit measure based on the concept of true economic income which includes the cost of capital for all types of financing. The study explores the possibility of EVA being preferred to other performance measures. It will serve to be very useful for researchers who wish to understand and implement EVA and carry out further research on the manifold issues of valued added performance measures.

KEYWORDS: Performance measures, Economic Value Added, Sustainable growth, Market Value Added.