RELATIONSHIP BETWEEN EVA AND MVA: AN EMPIRICAL ANALYSIS OF INDIAN PHARMACEUTICAL INDUSTRY

DR. VARSHA VIRANI

ASST. PROFESSOR
SCHOOL OF MANAGEMENT
R K UNIVERSITY
RAJKOT
GUJARAT

ABSTRACT
EVA is a measurement tool that determines value addition if a business is earning more than its true cost of capital. Proponents of EVA believe that it provides corporate managers a clearer idea of whether they are creating or destroying shareholder wealth. The concept of EVA is gaining popularity in India as a superior performance measure both for corporate reporting and for internal governance. Value added represents the wealth created by an enterprise during a specified period. No companies can survive and grow, if it fails to generate value to its shareholders. Hence, value added is a basic measure which is used for measuring the financial performance of an enterprise. Traditionally, the yardsticks used to measure the efficiency and profitability of a business organization were accounting based measures like ROI, ROE, ROCE, EPS, RONW and financial ratios. But, now a day’s value added measures have emerged as a replacement of the traditional accounting based measures. The reason behind this is that the financial performance of a business organization is measured from the shareholders’ value point of view. By keeping this in mind, this study is an attempt to analyze the value creation in Indian Pharmaceutical Industry from 2000 to 2009 by using regression analysis.

KEY WORDS: Economic Value Added, Market Value Added, Profitability, ROI, Value Creation.