

ABSTRACT

This study examines claims that Economic Value Added (EVA) better explain stock values and stock returns than traditional accounting measures. Also, this study examines the relationship between EVA and Market Value Added (MVA) as well as the relationship between EVA and the annual change in MVA. The evidence suggests that EVA, in general, has a superior influence over stock values and stock returns compared to the traditional accounting measures like earnings per share. Its superiority becomes more apparent when regression tests are conducted separately for companies with positive EVA (wealth creators) and those with negative EVA (wealth destroyers). The adjusted R-square values range from 41.1% to 83.3% for the former and 28.3% to 86.8% for the latter where MVA is used as the dependent variable. However, this study finds that the relationship between EVA and MVA, and the relationship between EVA and the annual change in MVA is not a straightforward one. The relationship holds particularly well for the wealth creators, where the strong positive relationship between EVA and MVA shows that EVA is highly valued by the market. In other cases, the relationship is inconsistent throughout the years. Nevertheless, this study finds that EVA has its own technical merits as a tool to measure corporate performance and value companies.