

CHAPTER 6: CONCLUSION

6.1 Summary

This study has obtained empirical evidences that EVA is a better predictor of MVA and the annual change in MVA (hence, stock values and stock returns) than traditional accounting measures like EPS. When both EVA and EPS are used jointly, their combined explanatory power does not increase significantly. Furthermore, when companies are grouped into either wealth creators or wealth destroyers, EVA has a significant impact on companies' MVA and the annual change in MVA. Where MVA is the dependent variable, the adjusted R-square values for the wealth creators range from 41.1% to 83.3% while the adjusted R-square values for the wealth destroyers range from 28.3% to 86.8%. These findings compare favourably with the average cross-sectional results obtained by combining all the 100 companies.

However, this study shows that the relationship between EVA-to-capital and MVA-to-capital, and the relationship between EVA-to-capital and the annual change in MVA-to-capital is not consistent throughout the years. This is more so in the cross-sectional results that combine all the 100 companies. For the wealth creators, EVA-to-capital is highly significant and the regression coefficient is positive in all the years, which shows that it is highly valued by the market. For the wealth destroyers, EVA-to-capital is also significant but the regression coefficient is negative.

All in, this study finds that EVA has its merits for use in corporate performance and valuation measures. Firstly, EVA should help managers realize that there is actually a cost to capital and this cost is much larger than the cost of debt. Until managers determine its cost of capital, they cannot know whether all costs are covered and thereby, add value to the company. Secondly, when managers focus on EVA, it will help to ensure that they operate in a manner that is consistent with maximizing shareholder wealth. Thirdly, as competition for

capital intensifies, the emphasis on shareholder value will be driven by the market. Companies will have no alternative but to place increasing importance on maximizing shareholder wealth through the use of cash-based shareholder value measures like EVA. Lastly, EVA provides a measure of wealth creation that aligns the goals of divisional and plant managers with the goals of the whole company.

6.2 Limitations of this Study and Further Research

One limitation of this study is that the multiple regression analysis is limited to two independent variables, that is EVA-to-capital and EPS. Another limitation is that this study focuses only on simple linear and multiple regressions as opposed to additionally examining curvilinear and exponential relationships. The use of the same beta for each company to compute the cost of equity for each of the five years, assuming that beta values are stable, is another limitation.

Bearing in mind the findings obtained in this study as well as the limitations listed above, this study suggests that further research should be undertaken to investigate the inconsistencies of the findings in this study, particularly on the nature of the relationship between EVA and MVA for Malaysian companies. Additionally, future search can incorporate more independent variables into the multiple regression, in order to determine their predictive power and examine the nature of their relationships with MVA and the annual change in MVA. Indeed, market values of stocks are influenced by a combination of factors and not just one or two. Future research could also focus on various industries to determine the extent of the relationship between EVA and MVA within those industries. This may provide useful insights, which can be helpful to investors, analysts, companies and academics. Lastly, this study examines the simple linear regression of the variables. Other non-linear relationships like curvilinear and exponential could be explored.