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Value based measurement of financial performance

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Abstract
Every company has to be very cautious in selecting their measurement tools, as it will affect substantially the management resources and every department of the company. The concept of economic framework is an innovative way to measure the value of a company. This economic measurement system determines companies' worth and performance based on their economic situation not according to accounting numbers produced using traditional accounting rules. According to the past studies, economic frameworks set quality standard in measuring performance and it is necessary for company to create value for share- holders. Due to ample of evolution in last decade in the corporate world, managers and investors are seeking for an economic framework which better mirror the value and profitability of their company. Accounting tools which are being used till today are not sufficient and unlikely in facing the challenge arising from efficient capital markets and owners. Value based measurement framework, a new economic dimension is required, which could better reflect the opportunities and downsides. There are number of value based measurement in the economic frame-work, for example Economic Value Added (EVA), Cash Value Added (CVA), Cash Flow Return on Investments (CFROI), Shareholder Value Analysis (SVA) and Market Value Added (MVA). Any of these can be chosen by a company as their economic framework.
Value added is a measure of economic performance of an economic entity which has a fairly long history of application in economics. It has been regarded as the increase in wealth of an economic entity. Thus, it is a particular concept of income measurement. A company creates value for its shareholders when the shareholder return exceeds the required return to equity. The shareholder's wealth is measured by the returns they receive on their investment. Economic Value Added (EVA) was introduced and advocated by Stern Stewart and Co. in 1982. This study intended to identify why EVA should be used as financial performance measure over the conventional measures and any added value or added advantage in EVA compare to conventional methods. Today EVA has been able to gain attention of the corporate giants like Coca-Cola, TATA, and Reliance etc. as it is able to depict the true profitability of the company, and however, there have been very little research conducted on EVA in Asian countries including India.

Keywords: EVA, Disclosure, Wealth maximization, Performance Measures, MVA

1. Introduction

On this earth every task is performed for any purpose whether it is an economic activity or non-economic activity. Business organizations that are related with economic activities especially are also operated for some specific purpose. But due to changes in micro and macro elements of business environment, the main aims of business have also changed. For example, earlier profit maximization was considered the main aim of any business but after sometime this aim has been replaced by the aim of wealth maximization and today this aim has also become unpopular. At present, value generation has taken the place of main aim of all types of business. Now Profit maximization as a concept is age-old, wealth maximization is matured and value maximization is today's wisdom (Chandra *et al*, 2012) [3].
In order to operationalise this objective, shareholder wealth is traditionally proxies by either standard accounting magnitudes (such as profits, earnings and cash flows from operations) or financial statement ratios (including earnings per share and the returns on assets, investment and equity). This financial statement information is then used by managers, shareholders and other interested parties to assess current firm performance, and is also used by these same stakeholders to predict future performance. Further, under the semi-strong form of the efficient market hypothesis, the publicly available information contained in these variables is readily interpreted by the market, and thereby incorporated into future stock prices. For years, investors and corporate managers have been seeking a timely and reliable