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**A Study on Economic Value Added and Share Price Behaviour: The
Recent Analysis**

EMMANUEL ATTAH KUMAH

EMMANUEL ATTAH KUMAH holds an MBA from SRM University, India. He is the Deputy Registrar of Academic Affairs at All Nations University College. He teaches Part-time in the School of Business.

For this and additional works at:

anujat.anuc.edu.gh

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ABSTRACT

Many companies seem to have destroyed shareholder's wealth over a period of time and only a few have positively contributed to their wealth. With the help of Economic Value Added (EVA) and Market Value Added (MVA) which tell what the institution is doing with investor's hard earned money, this research examines the relationship between the share price and other economic and financial variables such as Economic Value Added (EVA), Return on Asset (ROA) and Return on Fund (ROF). The overriding message of this paper is that the share price has direct correlation between the economic and financial variables. This analysis helps us to dig below the surface numbers to tell us more about the underlying business and whether there is a prima facie case for using EVA as one of the ranges of performance measurement tools. The relationship between EVA and other traditional measures is examined using Pearson's Coefficient of Correlation. Regression analysis has been used to examine the relationship of EVA, Earning Per Share (EPS), ROA and ROF with share price. The study found that, investing in the market is becoming more and more risky as the beta of the individual securities is increasing year by year. The increase in beta is due to increasing weighted average cost of capital; it specifies that capital is becoming more and more costly; Majority of the banks are increasing their capital to meet the increased expenses. As the market is becoming more and more risky, investors' expectations are increasing and therefore share prices of almost all the banks for almost all the years showed an increasing trend. Data analysis of 39 banks shows that: Share prices of two banks' shows high correlation of coefficient and coefficient of determination with EVA and share prices of eighteen banks' shows low correlation of coefficient and coefficient of determination with EVA. This specifies that there is no relationship between EVA and share price.

Keywords: *Economic Value, Financial Variables, Share Price, Behaviour and Market Value.*

Introduction

In business schools, we go to learn the various measures adopted by analysts to gauge the performance of banks and are able to fathom abbreviations like EPS, ROA and ROF but many of us are not comfortable with these matrices rather a set of new value-based measures like CVA, SVA, CFROI, EVA have emerged on the screen. Out of these, EVA has emerged as a clear-cut winner to these traditional accounting measures EPS, ROA, ROF, etc. do not correlate well with the shareholder value creation. On the contrary, EVA offers a consistent approach to setting goals and measuring performance, communicating with investors, evaluating strategies and allocating capital. EVA as a value-based performance metric seeks to measure the periodic performance in terms of change in value. Maximizing EVA means the same as maximizing long-term yield on shareholder's investment. It is the measure that captures the true

economic profit of the organization. Here an attempt has been made to examine the relationship between share price and EVA, considered to be the best indicator of shareholder value creator in relation to other performance measures like ROA, ROF and EPS. In this paper, I examined the relationship of share price with EVA, ROA, ROF and EPS. Moreover, I analyzed the trend and growth of value creation in the Indian Banking Industry in terms of EVA and MVA.

This study is based on secondary data. The required financial data is collected from the electronic database PROWESS, provided by Centre for Monitoring Indian Economy (CMIE), Mumbai. Apart from this, the study used the published annual reports of banks wherever required. The sample size of the present study is 39 banks from the Indian Banking Industry. The study takes all the banks that are listed on Bombay Stock Exchange BSE-SENSEX. Further, the study eliminates the banks which have merged with another bank. Finally, the sample comprises of top 39 banks which includes 22 public sector banks and 17 private sector banks which were selected as sample banks by considering the availability of financial data for the study period 2002-03 to 2008-09. The study took values of EPS, ROA and ROF have been taken as given in the database while EVA is computed using equity approach. The share price of the 39 banks are taken as the average of the high, low, opening and closing values of that respective financial year. Since no huge transitions have occurred in the trends of stock prices over the period considered, the fluctuations are not far-off from the obtained average value. The relationship between EVA and other traditional measures is examined using Pearson's Coefficient of Correlation. Regression analysis has been used to examine the relationship of EVA, EPS, ROA and ROF with share price. For analyzing the trend and growth of value addition in terms of EVA and MVA in the Indian Banking Industry, the present study used statistical tools like mean, standard deviation, CV, LGR (Linear Growth Rate) and 't' statistic for analyzing the financial data of sample banks.

Results and Discussion

Relationship between EVA, ROA, ROF and EPS:

Correlation Results: Relationship between EVA-the broad measure of value creation and traditional performance measures –ROA, ROF and EPS has been established with the help of Karl Pearson's coefficient of Correlation. The results are given in Table below:

Correlations:	EVA	ROA	ROF	EPS	SHARE
EVA	1.0000 (234) P=0.29	.1155 (234) P= .039	.1028 (234) P= .058	-.0304 (234) P= .322	.1029 (234) P= .058
ROA	.1155 (234) P= .039	1.0000 (234) P= .002	.7716 (234) P= .000	-.0013 (234) P= .492	.0269 (234) P= .341
ROF	.1028 (234) P= .058	.7716 (234) P= .000	1.0000 (234) P=.004	.1660 (234) P= .005	.1041 (234) P= .056
EPS	-.0304 (234) P= .322	-.0013 (234) P= .492	.1660 (234) P= .005	1.0000 (234) P=.003	.8765 (234) P= .000
SHARE	.1029 (234) P= .058	.0269 (234) P= .341	.1041 (234) P= .056	.8765 (234) P= .000	1.0000 (234) P=.001

Correlating EVA using Pearsonian correlation coefficient with the traditional measures of performance ROA, ROF and EPS shows that the relationship is positive and low with EPS and highly positive with ROA and ROF except in the year 2002-03 in which it is negative and low with ROF. The coefficient of determination [R-Square] indicates that EPS explains the total variation in shareholder wealth only to the extent of 5%; ROA up to the extent of 43% and ROF up to the extent of 53% approximately. This proves that as compared with the traditional performance measures, EVA is the real key to create shareholder's wealth and the true indicator of the financial performance of a bank. The empirical results indicate that not even a single traditional performance measure can be relied upon and used to measure the variation in shareholder value in totality. Traditional performance measures do not reflect the real wealth of shareholders. Hence it should be measured through EVA.

Relationship between Share price and Other Economic and Financial Variables - EVA, ROA, ROF and EPS:

Regression Results

The relationship of share price with EVA, ROA, ROF and EPS is examined by using regression analysis. The regression analysis is done on both yearly and on an average basis over the study period. The detailed regression results for the year 2002-03 to 2008-09 have been given as The regression equation estimated is as follows:

$SP = \hat{a} + \hat{a}_1 ROF + \hat{a}_2 EPS + \hat{a}_3 ROA + \hat{a}_4 EVA + \hat{a}_t$ When the above equation was estimated, following results are obtained: For the year 2002-03:

$$SP = -71.208 - 3.879 ROF + 2.935 EPS + 101.48$$

$$(-1.105) \quad (-1.374) \quad (14.23) \quad (2.433)$$

$$ROA + 0.075 EVA + \hat{a}_t \quad (2.701)$$

$$R^2 = 0.862; \text{Adjusted } R^2 = 0.846; F = 53.31$$

Results indicate that all the independent variables explain 86.2% variation in dependent variable (share price) but when adjusted for number of degree of freedom variation explained reduces to 84.6%. EPS is found to be the most significant variable at 0% level of significance in explaining the variation in share price of a bank. However, share price is found to be negatively related to EVA, ROA and ROF whereas it is positively related to EPS, EVA and ROA. This indicates that increase in EPS will have a positive impact on share price.

For the year 2003-04:

$$SP = -22.054 - 4.889 ROF + 2.902 EPS + 79.14$$

$$(-0.314) \quad (-1.660) \quad (13.829)$$

$$(1.809) \quad ROA + 0.0589 EVA + \hat{a}_t \quad (2.426)$$

$$R^2 = 0.853; \text{Adjusted } R^2 = 0.836; F = 49.63$$

Results indicate that all the independent variables explain 85.3% variation in dependent variable (share price) but when adjusted for number of degree of freedom variation explained reduces to 83.6%. EPS is found to be the most significant variable at 0% level of significance in explaining the variation in share price of a bank. However, share price is found to be negatively related to ROF whereas it is positively related to ROA, EPS and EVA. This indicates that increase in ROA, EPS and EVA will have a positive impact on share price.

For the year 2004-05:

$$SP = 3.4355 - 1.8495 ROF + 3.666 EPS + 100.41 \quad (0.042) \quad (-0.234)$$

$$(7.081) \quad (0.640) \quad ROA + 0.0526$$

$$EVA + \hat{a}_t \quad (0.863)$$

$$R^2 = 0.623; \text{Adjusted } R^2 = 0.578; F = 14.06$$

Results indicate that all the independent variables explain 62.3% variation in dependent variable (share price) but when adjusted for number of degree of freedom variation explained reduces to 57.8%. EPS is found to be the most significant variable at 0% level of significance in explaining the variation in share price of a bank. However, share price is found to be negatively related to ROF whereas it is positively related to EPS, EVA and ROA. This indicates that increase in EPS, EVA and ROA will have a positive impact on share price.

For the year 2005-06:

$$SP = -72.757 - 2.854 ROF + 6.444 EPS +$$

$$136.03$$

$$(-1.317) \quad (-0.560) \quad (25.20)$$

$$(1.526) \quad ROA + 0.065 EVA + \hat{a}_t \quad (1.852)$$

$$R^2 = 0.952; \text{Adjusted } R^2 = 0.946; F = 170.03$$

Results indicate that all the independent variables explain 95.2% variation in dependent variable (share price) but when adjusted for number of degrees of freedom variation explained reduces to 94.6%. EPS is found to be the most significant variable at 0% level of significance in explaining the variation in share price of a bank. However, share price is found to be negatively related to ROF whereas it is positively related to EPS and EVA. This indicates that increase in ROA, EPS and EVA will have a positive impact on share price.

For the year 2006-07:

$$SP = 132.69 - 35.39 ROF + 8.548 EPS + 395.35$$

$$(0.831) \quad (-2.873) \quad (27.65) \quad (2.168)$$

$$ROA + 0.156 EVA + \hat{a}_t (3.091)$$

$$R^2 = 0.961; \text{Adjusted } R^2 = 0.956; F = 212.25$$

Results indicate that all the independent variables explain 96.1% variation in dependent variable (share price) but when adjusted for number of degrees of freedom variation explained reduces to 95.6%. EPS is found to be the most significant variable at 0% level of significance in explaining the variation in share price of a bank. However, share price is found to be negatively related to ROF whereas it is positively related to EPS. This indicates that increase in ROA, EPS and EVA will have a positive impact on share price. For the year 2007-08:

$$SP = 296.20 - 61.79 ROF + 11.32 EPS + 584.38$$

$$(2.483) \quad (-1.207) \quad (-3.650) \quad (26.19)$$

$$ROA + 0.1316 EVA + \hat{a}_t (2.698)$$

$$R^2 = 0.958; \text{Adjusted } R^2 = 0.953; F = 197.81$$

Results indicate that all the independent variables explain 95.8% variation in dependent variable (share price) but when adjusted for number of degrees of freedom variation explained reduces to 95.3%. EPS is found to be the most significant variable at 0% level of significance in explaining the variation in share price of a bank. However, share price is found to be negatively related to ROF whereas it is positively related to EVA, ROA and EPS. This indicates that increase in EPS, EVA and ROA will have a positive impact on share price.

For the year 2008-09:

$$SP = 226.20 - 41.29 ROF + 10.02 EPS + 471.38$$

$$(-1.006) \quad (-2.450) \quad (19.19) \quad (1.683) \quad ROA +$$

$$0.1316 EVA + \hat{a}_t (2.081)$$

$$R^2 = 0.955; \text{Adjusted } R^2 = 0.950; F = 190.51$$

Results indicate that all the independent variables explain 95.5% variation in dependent variable (share price) but when adjusted for number of degree of freedom variation explained reduces to 95.0%. EPS is found to be the most significant variable at 0% level of significance in explaining the variation in share price of a bank. However, share price is found to be negatively related to ROF whereas it is positively related to EVA, ROA and EPS. This indicates that increase in EPS, EVA and ROA will have a positive impact on share price.

Average Regression Results:

$$SP = -113.809 - 17.451 ROF + 7.564 EPS + 272.29$$

$$(-1.690) \quad (-3.584) \quad (29.435)$$

$$(3.073) \quad ROA + 0.1489 EVA + \hat{a}_t (4.378)$$

$$R^2 = 0.796; \text{Adjusted } R^2 = 0.793; F = 224.32$$

Results indicate that all the independent variables explain 79.6% variation in dependent variable i.e., share price but when adjusted for number of degrees of freedom variation explained reduces to 79.3%. EPS is found to be the most significant variable at 0% level of significance in explaining the variation in

share price of a bank. However, share price is found to be negatively related to ROF whereas it is positively related to EVA and EPS. This indicates that increase in ROA, EPS and EVA will have a positive impact on share price.

With regard to the relationship between share prices of the sample banks and the financial as well as economic variables of ROA, ROF, EPS and EVA the regression results revealed EPS as the most significant variable in explaining the variation in share prices followed by EVA, ROA and ROF.

TABLE 1: Relationship between Share price & Other Economic and Financial Variables (2002-03): Regression Results

Multiple R	.92871				
R Square	.86250				
Adjusted R Square	.84632				
Standard Error	107.59058				
Analysis of Variance					
	DF	Sum of Squares	Mean Square		
Regression	4	2468783.46752	617195.86688		
Residual	34	393574.92491	11575.73309		
F =	53.31808	Signif F = .0000			
----- Variables in the Equation -----					
	SE B	Beta	T	Sig	B
EPS	2.935790	.206270	.951220	14.233	.0000
EVA	.075379	.027904	.174423	2.701	.0107
ROA	101.485358	41.715020	.161076	2.433	.0204
ROF	-3.879348	2.823279	-.094465	-1.374	.1784
(Constant)	-71.208914	64.466476	-1.105	.2771

Figure 1

The share price is affected by return on asset and return on fund. Return on asset keeps on increasing while Return on Fund is not increasing but rather stagnant.

However, earning per share (EPS) is directly proportional to Return on Fund since Return on fund is not increasing, earning per share is also not increasing. The price of the share is highly influence by the economic and market forces (factors). Moreover, EVA is zero since Return on Fund is very small (negligible).

TABLE 2: Relationship between Share price & Other Economic and Financial Variables (2003-04): Regression Results

Multiple R	.92401
R Square	.85379
Adjusted R Square	.83659
Standard Error	113.04171

Analysis of Variance

	DF	Sum of Squares	Mean Square
Regression	4	2537013.14121	634253.28530
Residual	34	434466.57552	12778.42869
F =	49.63469	Signif F = .0000	

Variables in the Equation					Variable	B
	SE B	Beta	T	Sig	T	
EPS	2.902630	.209899	.949163	13.829	.0000	
ROA	79.148854	43.756219	.129452	1.809	.0793	
EVA	.058995	.024316	.160711	2.426	.0207	
ROF	-4.889766	2.946284	-.122094	-1.660	.1062	
(Constant)	-22.054408	70.209947	-.314	.7553

Figure 2

From figure 2, it could be seen clearly that, the share price is affected by return on asset and return on fund. Return on asset keeps on increasing while Return on Fund keeps on decreasing which is not creating shareholders value. However, earning per share (EPS) is directly proportional to Return on Fund since Return

on fund is decreasing, earning per share is also not increasing. The price of the share is highly influence by the economic and market forces (factors). Moreover, EVA is zero since Return on Fund is very small (negligible).

TABLE 3: Relationship between Share price & Other Economic and Financial Variables (2004-05): Regression Results

Multiple R	.78947				
R Square	.62326				
Adjusted R Square	.57893				
Standard Error	324.11060				
Analysis of Variance					
	DF	Sum of Squares	Mean Square		
Regression	4	5908593.70582	1477148.42645		
Residual	34	3571621.25628	105047.68401		
F =	14.06169	Signif F = .0000			
----- Variables in the Equation ----- Variable B					
	SE B	Beta	T	Sig	T
EPS	3.666345	.517783	.775403	7.081	.0000
EVA	.052696	.061050	.094169	.863	.3941
ROA	100.416127	156.994059	.181908	.640	.5267
ROF	-1.849513	7.909112	-.066720	-.234	.8165
(Constant)	3.435520	81.914980	.042	.9668

Figure 3

Figure 3 shows the relationship between share price and other economic and financial variables. The share price is affected by both macro and micro economic factors. Return on asset keeps on increasing while Return on Fund is not increasing but rather stagnant. However, earning per share (EPS) is directly proportional to Return on Fund since Return on fund is not increasing, earning

per share is also not increasing. The price of the share is highly influence by the economic and market forces (factors). Moreover, EVA is zero since Return on Fund is very small (negligible).

TABLE 4: Relationship between Share price & Other Economic and Financial Variables (2005-06): Regression Results

Multiple R	.97590
R Square	.95239
Adjusted R Square	.94679
Standard Error	198.63577

Analysis of Variance

	DF	Sum of Squares	Mean Square
Regression	4	26834933.57208	6708733.39302
Residual	34	1341509.78323	39456.17009

F = 170.03002 Signif F = .0000

Variables in the Equation			Variable B		
	SE B	Beta	T	Sig	T
EPS	6.444695	.255739	.974403	25.200	.0000
EVA	.065649	.035452	.071106	1.852	.0728
ROA	136.037347	89.152490	.106642	1.526	.1363
ROF	-2.854668	5.100511	-.039659	-.560	.5794
(Constant)	-72.757856	55.227871	-1.317	.1965

Figure 4

Figure 4 explains clearly the relationship between share price and other economic and financial variables for 2005-2006. The constant is negative and keeps on decreasing while the other variables including the share price are positive and the Return on asset keeps on increasing. The share price is affected by both macro and micro economics. Return on asset keeps on increasing while

Return on Fund is not increasing but rather stagnant. However, earning per share (EPS) is directly proportional to Return on Fund since Return on fund is not increasing, earning per share is also not increasing. The price of the share is highly influence by the economic and market forces (factors). Moreover, EVA is zero since Return on Fund is very small (negligible).

TABLE 5: Relationship between Share price & Other Economic and Financial Variables (2006-07): Regression Results

Multiple R	.98056
R Square	.96150
Adjusted R Square	.95697
Standard Error	300.25671

Analysis of Variance

	DF	Sum of Squares	Mean Square
Regression	4	76544066.44142	19136016.61036
Residual	34	3065239.05672	90154.08990

F = 212.25900 Signif F = .0000

Variables in the Equation					Variable	B
	SE B	Beta	T	Sig	T	
EPS	8.548039	.309137	1.013809	27.651	.0000	
EVA	.156830	.050742	.104620	3.091	.0040	
ROA	395.353719	182.322036	.094117	2.168	.0372	
ROF	-35.399088	12.320419	-.132524	-2.873	.0070	
(Constant)	132.696893	159.757706	.831	.4120

Figure 5

Figure 5 shows clearly the relationship between share price and other economic and financial variables. The share price is affected by several factors at the market. Return on asset keeps on increasing while Return on Fund keeps on decreasing. However, earning per share (EPS) is directly proportional to Return on Fund since Return on fund is negative; it also has negative effects on Earning per share. The price of the share is highly influence by the economic and market forces (factors). Moreover, EVA is zero since Return on Fund is very small (negligible).

TABLE 6: Relationship between Share price & Other Economic and Financial Variables (2007-08): Regression Results

Multiple R	.97918					
R Square	.95880					
Adjusted R	.95395					
Standard Error	401.62052					
Analysis of Variance						
	DF	Sum of Squares	Mean Square			
Regression	4	127627475.30346	31906868.82587			
Residual	34	5484167.30844	161299.03848			
F =	197.81190	Signif F = .0000				
----- Variables in the Equation -----						
	S E B	Beta	T	Sig	Variable	B
EPS	11.320997	.432263	1.040003	26.190		.0000
ROA	584.384744	235.384568	.103166	2.483		.0181
EVA	.131675	.048799	.095108	2.698		.0108
ROF	-61.794016	16.931260	-.164124	-3.650		.0009
(Constant)	296.207959	245.446454	-1.207	.2358

Figure 6

Figure 6 above explains the relationship between share price and other economic and financial variables. The share price is affected by several factors at the market. Return on asset keeps on increasing while Return on Fund keeps on decreasing. However, earning per share (EPS) is directly proportional to Return on Fund since Return on fund is negative; it also has negative effects on Earning per share. The price of the share is highly influence by the economic and market forces (factors). Moreover, EVA is zero since Return on Fund is very small (negligible).

TABLE 7: Relationship between Share price & Other Economic and Financial Variables (2008-09): Regression Results

Multiple R	.96989				
R Square	.95550				
Adjusted R Square	.95000				
Standard Error	399.62052				
Analysis of Variance					
	DF	Sum of Squares	Mean Square		
Regression	4	104326479.30336	30006868.82587		
Residual	34	3884167.30844	131288.03848		
F =	190.51238	Signif F = .0000			
----- Variables in the Equation -----					
	SE B	Beta	T	Sig	B
EPS	10.020997	.232263	1.040003	19.190	.0000
ROA	471.384744	205.384568	.103166	1.683	.0181
EVA	.131675	.048799	.095108	2.081	.0108
ROF	-41.294016	11.931260	-.164124	2.450	.0009
(Constant)	226.202959	199.446454	1.006	.2358

Figure 7

The figure above shows the relationship between share price and other economic and financial variables. The share price is affected by several factors at the market. Return on asset keeps on increasing while Return on Fund keeps on decreasing. However, earning per share (EPS) is directly proportional to Return on Fund since Return on fund is negative; it also has negative effects on Earning per share. The price of the share is highly influence by the economic and market forces (factors). Moreover, EVA is zero since Return on Fund is very small (negligible).

TABLE 8: Relationship between Share price & Other Economic and Financial Variables (2009-2010): Average Regression Results

Multiple R	.89257				
R Square	.79668				
Adjusted R Square	.79313				
Standard Error	491.79919				
Analysis of Variance					
	DF	Sum of Squares	Mean Square		
Regression	4	217024255.57657	54256063.89414		
Residual	229	55387415.88759	241866.44492		
F =	224.32241	Sig F = .0000			
----- Variables in the Equation -----					
	SE B	Beta	T	Sig	T
EPS	7.564251	.256984	.909619	29.435	.0000
ROA	272.296396	88.599822	.147315	3.073	.0024
EVA	.148926	.034017	.131455	4.378	.0000

ROF	-17.451826	4.868815	-.174108	-3.584	.0004
(Constant)	-113.809446	67.340890	1.690	.0924

Figure 8

In figure 8 above, the constant is negative and keeps on decreasing just like Return on Fund. The share price is affected by several factors at the market. Return on asset is positive and keeps on increasing while Return on Fund is negative. However, earning per share (EPS) is directly proportional to Return on Fund since Return on fund is negative; it also has negative effects on Earning per share. The price of the share is highly influence by the economic and market forces (factors). Moreover, EVA is zero since Return on Fund is very small (negligible).

Findings from the Study

- ❖ Investing in the market is becoming more and more risky as the beta of the individual securities is increasing year by year (Basidore, Boquist, Milbourn and Thakor, 1997).
- ❖ The increase in beta is increasing weighted average cost of capital; it specifies that capital is becoming more and more costly (Grant, 1996).
- ❖ Majority of the banks are increasing their capital to meet the increased expenses (Singh and Garg, 2004).
- ❖ As the market is becoming more and more risky, investors' expectations are increasing and therefore share prices of almost all the banks for almost all the years showed an increasing trend (Tully, 1993).
- ❖ Data analysis of 39 banks shows that:
- ✓ Share prices of two banks' shows high correlation of coefficient and coefficient of determination with EVA (Weaver, 2001).

- ✓ Share prices of eighteen banks' shows low correlation of coefficient and coefficient of determination with EVA (Young and Byrne, 2001).

This specifies that there is no relationship between EVA and share price.

Conclusion and Recommendation

This report explains the importance of using EVA as a tool for measuring financial performance. This study reveals that there is no strong pattern of EVA of selected banks during the period. The wealth created by most companies in year 2004 is negative because of higher cost of capital. The central idea of EVA is subtracting the cost of capital from the firm's profits to measure, as the term indicates, the economic additional value produced by the firm to its owners over the weighted cost of the capital employed. It reveals that the decision of managers between using equity fund or debt fund will influence EVA to the greater extent. This raised the question of the effect of the debt and equity cost components on the behaviour of EVA. It was observed that the cost of debt has little effect on the EVA's. On the other hand, as is expected, EVA behaves in a linear fashion with respect to the cost of equity. It is also observed that there is no strong relation between EVA and market prices of the banks. Thus, it can be understood that investor do not give so much importance to EVA for its investment decision. Extensive study is required to establish the influence of other factors like non-fund-based income, spread, deployment of funds, market price, etc. It is also expected that the usage of EVA as a financial performance tool will also be more in India. The study adds that EVA is the one of the measures, which can be used to measure the performance of the banks but it cannot be used to forecast the share price of the company.

I am recommending investors to select the best investment decisions. Moreover, managers who manage the affairs of companies should determine the best cash flows for investment analysis and risk analysis in capital budgeting. The best investment strategy and process should be used to do the business. Managers as well as shareholders should use the minimum cost of capital in doing business in order to maximize shareholders value in the business. Controlling of cost of elements as well as overhead cost should be adopted in order to minimize total cost. This research has a limited scope, that is only seven years and the data of only 39 banks is taken into consideration. These 7 years had shown a lot of variations with respect to beta, invested capital, cost of capital and share prices. To overcome the limitation of the study, the sample size and the years of consideration for the research has to be increased, so as to decrease the variations with respect to the above-mentioned variables. Extensive study is required to establish the influence of other factors like expectations of investors with respect to mergers and acquisitions, sold outs and various other factors which influence investors to undertake investing decisions. It is because in these days all the above-mentioned factors are common and it is expected that it will also influence share prices.

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