SUMMARY

Investors are currently demanding Shareholder value more strongly than ever. Traditional financial performance measures have been used for setting financial goals, measuring financial performance and valuations, although they do not theoretically correlate with the Shareholder value creation very well. Against this background, it is no wonder that so-called value based measures have received a lot of attention in the recent years, and the most prominent value based measure is Economic Value Added (EVA).

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 is a measure of financial performance used to determine the true profit earned by an organization and therefore yields a more accurate picture of the value of the organization.

The adoption of the EVA concept helps the management and employees to understand the real cost of equity capital, it reduces the possibility of management misusing free cash flow in unprofitable investments with the objective to maximize the absolute return over the real cost of capital. It is therefore aligning management’s interests to that of shareholders’, leading to goal congruence of shareholder wealth creation.

The study describes the theory and characteristics of EVA, and evaluates the appropriateness of using EVA as an analysis tool for decision-making in investment and as the standard for performance measurement and incentive scheme for property
companies. The study also seeks to unravel the distinction of EVA with close comparison to the traditional financial performance measures.

A research is conducted in comparing the performance analysis for public listed local property companies in Singapore, based on the traditional financial ratio analysis and the use of EVA framework, with a review of the ranking in performance. The research shows that the correlation between the rankings using the two measures is weak; it therefore suggests that the most profitable company may not necessary be the one creating the most value for the shareholders, and vice versa. But it is not conclusive enough that the use of EVA is more appropriate in analyzing property companies’ performance, although the theory and some researches are showing the contrary.

It is observed during the research that many profitable companies are actually value destroyers. This demonstrates that the current financial reporting requirement is insufficient to reflect the management’s performance and capability in creating Shareholder value. It is therefore suggesting that additional requirement is probably necessary to disclose such information for the use of shareholders in their analysis.

KEYWORDS:
Economic Value Added (EVA), Shareholder Value, Value Based Measures, Financial Performance, Traditional Financial Ratio Analysis, Property