



EVA as a measure for shareholder value and executive compensation - A critical view

By Stephan Pietge

GRIN Verlag Jul 2007, 2007. Taschenbuch. Book Condition: Neu. 214x152x13 mm. Neuware - Bachelor Thesis from the year 2003 in the subject Business economics - Investment and Finance, grade: 1.0 (A), Edinburgh Napier University (Business School), 200 entries in the bibliography, language: English, abstract: For several decades academics have been looking for an efficient performance measure, which not only reflects the effectiveness and efficiency of the firm, but also aligns manager's and shareholder's interests. Even though many studies question the merit of a single measure for overall firm performance, Stern and Stewart claim to have solved the puzzle with a method labeled Economic Value Added (EVA). This paper examines two aspects: First, EVA's predicting power regarding stock returns and second, its impact on management behavior as an element of executive compensation. At first glance, Stern and Stewart seem to be right. During the early 1990s their approach gained tremendous popularity, reflected by dozens of anecdotal success stories. Though EVA's demand of integrating a total capital charge is appealing, the concept is by no means new. The framework of residual income (economic profit), which has been around for decades, also requires a charge for equity capital. Further,...



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