Research article Available online www.ijsrr.org ISSN: 2279–0543

International Journal of Scientific Research and Reviews

Influence of Economic Value Added on share price: An empirical evidence from selected private sector banks in National Stock Exchange

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ABSTRACT

The goal of financial management is to maximize the shareholders' value. In recent years, Economic Value Added (EVA) framework is increasingly substitution for the standard measures of financial performance on account of its stockiness from creative accounting. The recent global financial inclinations indicate that several companies in India are focusing on shareholders' value creation. This study examines the assertions that Economic Value Added is more highly associated with stock returns and firm values. The main objectives of this study is to indicate whether the sampled private sector banks are able to create value for its shareholder and toexamine whether significant influence exists between the concrete values of EVA and share price of the sampled private sector banks. Convenience sampling technique was used to draw the sample from the private sector banks which were listed in National Stock Exchange (NSE). Operational hypotheses were formulated and various statistical tools like descriptive statistics, ANOVA and regression analysis were used for analyzing the data, mainly to evaluate the influence of EVA on share priceof the sampled private sector banks. Relative information content tests revealed that the stock return was more highly associated with EVA. This study assessed the performance based on two criteria namely return on stock and Economic Value Added. This study would be beneficial to the academicians, policymakers and researchers to formulate suitable policy in India.

KEYWORDS: Economic Value Added, Shareholders' Wealth Creation, Stock return, Value Based Management and Private Banks.

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INTRODUCTION

Recent study has concerns that the growth, innovation and value creation of private sector banks. When the new generation private sector banks started operations in 1993 that they had to contend against established players, some of whom had been in business for over a century. The market was dominated by the state-owned banks. There were also foreign banks operating in India. The new generation private sector banks had to carve out a distinct segment for themselves at intervals this framework.

Private sector banks have influence in Indian economy and transforming the way of banking sector. Today, they need a market share of twenty per cent in deposits and advances. This has been achieved in a very growing market, indicating that private sector banks have with success capitalized on the expansion of the Indian economy. People went on to encompass Internet banking, phone banking and mobile banking. The new banks developed the conception of direct commerce agents UN agency reached dead set customers with credit merchandise, taking loans to the customer's doorsill. Not solely did the private sector banks expand during this manner, their example forced public sector banks to also adopt similar strategies. It can also be said that the new private sector banks in general, and ICICI Bank in particular, catalyzed India's economic growth. This was a significant contribution of the new generation private sector banks. The Indian market may be a growing market and to stay succeeding one needs to explore the present opportunities well. For individual banks, a great deal can rely upon their underlying business strategy. The discriminator are a bank's potency and innovation. How well it manages risk - and, therefore, profitableness - also will be a key issue.

In the last 2 years, the economic condition and Bankruptcy Code (IBC) saw plenty of action in terms of amendments, challenges and counter claims. The law is now stabilizing and this will help the banks recover good value and it will create the shareholders wealth. The present study has examined EVA and influence of EVA on share price for the selected banking companies listed in National Stock Exchange (NSE).

In order to align the performance of individual zones/regions/branches to the overall corporate expectation in the term of EVA, the terminology of risk management has to percolate down the hierarchy of banks to the individual unit level. Novel performance yardstick in the form of EVA certainly form the unifying cord in every bank. EVA will be an important tool that bankers can use to measure and improve the financial performance of their banks. Since EVA takes the interest of the bank’s shareholders into consideration, the use of the EVA by bank management may lead to different decision than if management relied solely on their measures. As mentioned earlier an important difference between banks and others is the role of debt. For others firm debt is a part of the

financing operations, interest expenses excluded from Net Operating Profit After Tax (NOPAT) so that returns were unlevered. The bank's debt funding is effectively the raw materials which intermediating into higher yielding assets. Interest expenses, on the other view, is equivalent of the cost of goods sold. This has an important consequence. It is now well-recognized fact that the objective of every business entity should be to maximize shareholders wealth and all the undertakings of firm should be directed to attain this objective.

Need of the study

The present study helps in understanding the clear meaning of the performance of selected Private sector Banks. Using the Economic Value Added, most of the adjustment were intended to shifting the traditional accounting closer 'economic value' and 'market value' accounting in order to encourage managers to perform like owners and to discourage earnings management. Lay investors tend to focus share price, earnings, earnings growth and earnings per share. Such metrics do not to generate the additional income. The ability for the banking firms to create and maximize shareholders value has been a great concern. EVA tells what the establishment is doing with investor's hard-earned cash. In this study it is attempted to examine the influence between the EVA and share price to know whether the bank has created the shareholder value or not which is especially in the private sector banks listed in NSE.

Statement of the problem

Various Studies including this maintain the surfacing of EVA and MVA as significant independent variable to share price of private sector banks in India through secondary data. The present study was to examine an appropriate way of evaluating influence of Economic Value Added on banks' share price, also see which selected private sector banks have been able to create (or destroy) shareholders value since 2015-16 to 2017-18. This study was titled as ***"INFLUENCE OF ECONOMIC VALUE ADDED ON SHARE PRICE: AN EMPIRICAL EVIDENCE FROM SELECTED PRIVATE SECTOR BANKS IN NATIONAL STOCK EXCHANGE".***

Scope and limitation of the study

This study issue was tackled from the stock market perspective. This point of view was chosen since it was believed that in a semi-strong market as an Indian market all activities taking in an organization have a reflection on its share prices. Thus if the shareholder was well-off on the market then he/she was truly prospering. Therefore it was believed that the research problem would be well answered if the stock market perspective was used. Even though this problem was considered on this perspective, secondary data was calculated in from of financial statements and share price of

the banks. The study was limited to 5 private sector banks, which were large, listed and major players of Indian market. Thus it was believed that the conclusions from this study will provide an estimate on total reflection of shareholders' value creation. This study also acknowledge mathematical approximation and statistical errors imputed during the course of calculations and simulations. This study does not focus on those factors though background information and also partially covers some practices of the banks.

Objectives of the study

1. To identify the shareholders' value (in term of Economic Value Added) of selected private banks during last three years. I.e. From 2015-16 to 2017-18.
2. To examine EVA in bank and its influence on share price.
3. To suggest the private banking institutions to enhance the shareholders' wealth through economic value added context.

Hypothesis of the study

H_0: There is no significant influence on Economic Value Added on share price of selected Private Sector Banks.

H_1: There is significant influence on Economic Value Added on share price of selected Private Sector Banks.

METHODOLOGY

All the private sector banks listed in National Stock Exchange (NSE) Limited; in the Indian stock market was the universe of this study. For the analysis of the data, 5 private sector banks were selected for this study. Private Sector Banks were selected by convenience sampling method. The selected private sector banks were listed on National Stock Exchange during this study period 2015-16 to 2017-18. The banks were ICICI Bank, Federal Bank, Karnataka Bank, South Indian Bank, Yes Bank. Secondary data which were collected from the annual reports of banks and share price of banks from money control websites have been utilized in this study. Further, textbooks, journals and internet search engines were utilized for this study. The financial reports of the selected private sector banks listed on National Stock Exchange (NSE) for 3 years period 2015-16 to 2017-18 have been used for analyzing and testing the financial performance and shareholder value.**S**tatistical tools to be used for the analysis of Economic Value Added, Descriptive Statistics, Regression and ANOVA.

DATA ANALYSIS & INTERPRETATION

Table-1 Net Operating Profit After Tax, Capital Invested and Risk

Name of the Bank	2015-2016	2016-2017	2017-2018
Net Operating Profit After Tax(in Cr.)			
Federal Bank	1044.78	1245.66	1485.87
ICICI Bank	17195.53	18745.89	19091.14
Karnataka Bank	590.56	751.61	1168.24
South Indian Bank	621.74	821.15	1028.95
Yes Bank	2372.65	3179.08	4525.51
Capital Invested (Rs in Cr.)			
Federal Bank	10267.65	14834.69	23738.73
ICICI Bank	261718.80	244458.80	285002.80
Karnataka Bank	4742.07	5975.21	5809.91
South Indian Bank	6023.26	6559.38	9044.28
Yes Bank	45445.58	60660.73	100651.90
Risk			
Federal Bank	0.0348	0.1577	0.0002
ICICI Bank	0.0548	0.2117	0.0157
Karnataka Bank	0.0238	0.0135	-0.0057
South Indian Bank	0.0036	0.0017	0.0052
Yes Bank	0.0619	0.2307	-0.5513

Table-1shows NOPAT (Rs in Cr.) of various banks over a period of time. Among all the banks, it was found that in the year 2017-18, ICICI bank has maximum NOPAT. Federal Bank has NOPAT of Rs.1485.87 and stood at the second position. In the year 2015-16 Karnataka Bank has the lowest amount Rs.590.56.The NOPAT of the other Private sector banks came after ICICI Bank, they were Federal Bank, Yes Bank, South Indian Bank, Karnataka Bank in the year 2015-16 &2017-18.Andthe invested capital (Rs in Cr.) of all banks over a period of time among all the banks, it was found that in the year 2017-18, ICICI bank has maximum invested capital Rs.285002.80. In the year 2015-16 Karnataka Bank has minimum invested capital Rs.4720.07. This study shows that ICICI bank has maximum invested capital in the year 2017-18.Yes Bank has highest risk from highest value 0.2307. The ICICI Bank has risk 0.2117 and it's at second position. The Federal Bank has the lowest risk 0.0002. This study found that Yes Bank has maximum risk which implies it has high volatility of shares in the year 2016-17, compare to all other banks.

Table-2 Economic Value Added and Return on Invested Capital

Name of the Bank	2015-16	2016-17	2017-18
Economic Value Added (Rs in Cr.)			
Federal Bank	935.94	1208.57	1419.40
ICICI Bank	17012.33	18525.87	18863.13
Karnataka Bank	531.28	626.13	1039.26
South Indian Bank	594.64	773.92	993.68
Yes Bank	2318.16	3112.35	4465.12
Return on Invested Capital (Rs in Cr.)			

Federal Bank	10.18	8.40	6.26
ICICI Bank	6.57	7.67	6.70
Karnataka Bank	12.45	12.58	20.11
South Indian Bank	10.32	12.52	11.38
Yes Bank	5.22	5.24	4.50
Economic Value Added (In %)			
Federal Bank	9.12	8.15	5.98
ICICI Bank	6.50	7.58	6.62
Karnataka Bank	11.20	10.48	17.89
South Indian Bank	10.32	11.80	10.99
Yes Bank	5.10	5.13	4.44

Table-2 shows the Economic Value Added (Rs in Cr.) during the year 2017-18, ICICI Bank has the highest amount of EVA. The EVA value of Yes Bank was Rs.4465.12. Karnataka Bank has the lowest value of EVA at Rs.531.28.This study show that, ICICI Bank created maximum wealth to its shareholders compared to other banks. Because it has higher return on invested capital and moderate risk. Karnataka Bank earned highest return on invested capital (Rs in Cr.) in the year 2017-18 20.11. In the year 2017-18 Yes Bank earns the lowest return on invested capital Rs. 4.50.This study found that maximum return on invested capital was in Karnataka Bank wasRs.20.11 in the year 2017-18. Though it has moderate level of EVA it gives maximum return on invested capital. Karnataka Bank has highest percentage of Economic Value Added during the year 2017-18. It explains that Karnataka bank created more value for its shareholders compare to other banks. South Indian Bank has Second place. In the year 2017-18, Yes Bank has lowest percentage of Economic Value Added which was 4.44%.This study found that Karnataka Bank has highest Economic Value Added was 17.89 % in the year 2017-18.

Table-3 Descriptive statistics of all the Private Sector banks

	2015-16	2016-17	2017-18
Federal Bank			
Mean	78.394	67.81356	108.401
Median	61.225	68.750	111.450
Standard Deviation	36.157	12.367	9.411
Skewness	0.986	-0.169	-0.662
Kurtosis	-0.784	-0.745	-0.647

ICICI Bank			
Mean	273.180	257.899	302.867
Median	277.425	259.300	302.050
Standard Deviation	37.345	17.824	19.486
Skewness	-0.554	-0.332	0.402
Kurtosis	-0.639	-0.586	0.445
Karnataka Bank			
Mean	122.304	129.517	152.739
Median	124.650	127.350	154.600
Standard Deviation	16.408	17.049	13.763
Skewness	-0.446	0.091	-0.806
Kurtosis	-0.434	-1.379	0.621
South Indian Bank			
Mean	21.357	21.022	28.517
Median	21.000	21.150	28.600
Standard Deviation	2.591	1.776	2.789
Skewness	-0.097	-0.136	-0.498
Kurtosis	-1.196	-0.584	-0.393
Yes Bank			
Mean	771.365	1211.157	933.750
Median	768.275	1214.900	365.800
Standard Deviation	61.243	173.852	648.890
Skewness	-0.109	-0.163	0.173
Kurtosis	-1.030	-0.549	-1.892

The Descriptive statistic of Federal Bank share price were given in **Table-3**. In the year 2015-16, the standard deviation of Yes Banks' share price was high. It means that the share price has high volatility in the market. Skew ness was a measure of symmetry. It was found that skewness of distribution of Federal bank has greater than 0.00 and it indicates the distribution was positive skewed distribution. It indicates the positive return for share price. In all other banks, the skewness were less than 0.00 and it indicated that the distribution was negatively skewed distribution. A normal distribution has skew ness = 0. In all the private banks, the kurtosis values were less than 3, it shows the distribution was platy kutic. In the year 2016-17, the standard deviation of Yes Banks' share price was high. It means that the share price has high volatility in the market. Skew ness distribution of Karnataka bank was greater than 0.00 and it indicates the distribution was positive skewed distribution. It indicates the positive return for share price. In all other banks, the skew ness were less than 0.00 and it indicated that the distribution was negatively skewed distribution. In all the

private banks, the kurtosis values were less than 3, it shows the distribution was platykutic. In the year 2017-18, the standard deviation of Yes Banks' share price was high. It means that the share price has high volatility in the market. Skew ness distribution of ICICI bank and Yes bank were greater than 0.00 and it indicates the distribution was positive skewed distribution. It indicates the positive return for share price. In all other banks, the skew ness were less than 0.00 and it indicated that the distribution was negatively skewed distribution. In all the private banks, the kurtosis values were less than 3, it shows the distribution was platykutic.

Table-4 Regression result of all the Private Sector banks

	2015-16	2016-17	2017-18
Federal Bank			
Multiple R	0.626	0.899	0.016
R Square	0.392	0.808	0.000
Adjusted R Square	0.389	0.807	-0.004
Standard Error	28.327	5.436	9.479
P – Value	0.000	0.000	0.802
ICICI Bank			
Multiple R	0.956	0.841	0.593
R Square	0.914	0.707	0.352
Adjusted R Square	0.913	0.706	0.349
Standard Error	11.016	9.671	15.708
P-value	0.000	0.000	0.000
Karnataka Bank			
Multiple R	0.945	0.558615	0.306
R Square	0.892	0.312051	0.094
Adjusted R Square	0.892	0.309254	0.090
Standard Error	5.398	14.20233	13.121
P-value	0.000	0.000	0.000
South Indian Bank			
Multiple R	0.904	0.668	0.659
R Square	0.817	0.447	0.434
Adjusted R Square	0.816	0.444	0.432
Standard Error	1.110	1.328	2.124
P-value	0.000	0.000	0.000
Yes Bank			
Multiple R	0.658	0.934	0.627
R Square	0.434	0.872	0.393
Adjusted R Square	0.431	0.872	0.390
Standard Error	46.280	62.666	506.654
P-value	0.000	0.000	0.000

Table – 4 shows that, R-square was Goodness fit measures for linear regression model. This statistic indicates the influence of one or more independent variable on dependent variable. In the

year 2015-16 and 2016-17, the p-values of Federal bank was less than 0.05, which confirms —the rejection of null hypothesis of a zero coefficient at 5% level of significance. In 2017-18, the p-values of Federal bank was more than 0.05, which confirms that accept the null hypothesis of a zero coefficient at 5% level of significance. Further, the R-squared value of 0.808 revealed that the 81% of the variance of the dependent variable was explained by the independent variables in the year 2016-17. In 2015-16, ICICI Bank has highest coefficient of determinants. The coefficient of determinants was0.914, which indicated that 91% of the variation in the stock price of ICICI bank was explained by its EVA. Further showed that the regression equation is best fitted. In all the 3 years, the p-values of ICICI bank was less than 0.05, which confirms —the rejection of null hypothesis of a zero coefficient at 5% level of significance. In 2015-16, Karnataka Bank has highest coefficient of determinants. The coefficient of determinants was0.892indicated that 89% of the variation in stock price of Karnataka Bank can be explained the relationship to its EVA. Which can be considered a Good fit to the data. In all the 3 years, the p-values of Karnataka bank was less than 0.05, which confirms —the rejection of null hypothesis of a zero coefficient at 5% level of significance. In 2015-16, South Indian Bank has highest coefficient of determinants. The coefficient of determinants was0.817indicates that above 82% of the variation in stock price of South Indian Bank can be explained the high relationship to its EVA. In all the 3 years, the p-values of South Indian bankwas less than 0.05, which confirms —the rejection of null hypothesis of a zero coefficient at 5% level of significance. In 2016-17 Yes Bank has highest coefficient of determinants. The coefficient of determinants was0.872, which indicates that above 87% of the variation in stock price of Yes Bank can be explained the high relationship to its EVA. In all the 3 years, the p-values of Yes bank was less than 0.05, which confirms —the rejection of null hypothesis of a zero coefficient at 5% level of significance. EVA influenced share price banks significantly.

Table- 5 ANOVA result of all the Private Sector banks

Year	Df	SS	MS	F	P-value
Federal Bank					
2015-2016	1	126698.20	126698.20	157.89	0.000
2016-2017	1	30382.30	30382.30	1028.08	0.000
2017-2018	1	5.64	5.64	0.06	0.802
ICICI Bank					
2015-2016	1	314438.70	314438.7	2591.08	0.000
2016-2017	1	55530.55	55530.55	593.72	0.000
2017-2018	1	32705.23	32705.23	132.55	0.000
Karnataka Bank					
2015-2016	1	59088.70	59088.70	2027.87	0.000
2016-2017	1	22507.29	22507.29	111.58	0.000
2017-2018	1	4345.74	4345.742	25.24	0.000
South Indian Bank					
2015-2016	1	1349.82	1349.822	1094.88	0.000

2016-2017	1	349.84	349.8353	198.45	0.000
2017-2018	1	845.87	845.8729	187.57	0.000
Yes Bank					
2015-2016	1	401671.70	401671.70	187.53	0.000
2016-2017	1	65951.13	65951.13	1679.39	0.000
2017-2018	1	404685.20	404685.20	157.65	0.000

The empirical results of ANOVA were summarized in **Table-5**. The hypotheses were studied using ANOVA. In 2017-18 the p-value of Federal Bank was0.802368.Since the calculated value being higher than the critical value at 5% significance level, the null hypothesis was accepted as against the alternative hypothesis. Which enhances Federal Bank has no significant influence of EVA on its share price. In all the 3 years, p-value of ICICI Bank was 0.000. Since the calculated value being less than the critical value at 5% significance level, which enhance ICICI Bank has significant influence of EVA on its share price. Here the nullhypothes is was rejected and alternative hypothesis was accepted. In all the 3 years, p-value of Karnataka Bank was 0.000. Since the calculated value being less than the critical value at 5% significance level, which enhance Karnataka Bank has significant influence of EVA on its share price. Here the nullhy pothesis was rejected and alternative hypothesis was accepted. In all the 3 years, p-value of South Indian Bank was 0.000. Since the calculated value being less than the critical value at 5% significance level, which enhance South Indian Bank has significant influence of EVA on its share price. Here the nullhypothes is was rejected and alternative hypothesis was accepted. In all the 3 years, p-value of Yes Bank was 0.000. Since the calculated value being less than the critical value at 5% significance level, which enhance Yes Bank has significant influence of EVA on its share price. Here the nullhypothes is was rejected and alternative hypothesis was accepted. Thus, it can be concluded that share price of sample private sector banks differ significantly.

FINDINGS

Banks invest the money in all the useful ways and different locations in order to get maximum return on investment and reduce risk. This study showed that, ICICI bank invested their money in a proper manner and get maximum Net Operating After Tax in the year 2017-18. So return was higher than cost of capital and it increased EVA lead to higher financial performance. A central principle of the economic profit metric was that bank should be charged for the use of capital. As a result, it's crucial that calculate invested capital in order to find economic profit. This study showed that ICICI bank has maximum of invested capital in the year 2017-18 and also it generated a positive economic profit. Beta is a proportion of the instability, or methodical hazard, of a security or a portfolio in contrast with the whole market or a benchmark. This study found that the risk among the Private Sector Bank has maximum in Yes Bank in the year 2016-17. It implied that the investor

should be very caution while investing in Yes bank which has maximum volatility in its share price. EVA can also be referred to as economic profit, as it attempts to capture the true economic profit of a bank. Further it was found that the ICICI Bank has maximum EVA in the year of 2017-18. ICICI bank was created the shareholder's wealth. Return on invested capital was a calculation used to assess a bank's efficiency at allocating the capital under its control to profitable investments. This study showed that Karnataka Bank earned highest return on invested capital in the year 2017-18 and it allocated its capital in a profitable way. Further it was found that the Karnataka Bank has maximum EVA in the year of 2017-18. Federal bank's share price has high volatility and generates positive return which means the bank has high risk and moderate return to their shareholders. And all other banks gave moderate return to their shareholders. Further it indicated that the EVA of all the five banks have significant influence on share price. The result show that, EVA of all the five banks have a useful addition to accounting variable in predicting stock returns.

SUGGESTION

Finally, this study provided suggestions to the bank managers with understanding of activities that will enhance their bank's financial performances. The results of this study implied that it would be necessary for a bank management to require all the desired selections to reinforce the money positions of the bank. As performance indicator, EVA is superior to traditional indicators in assessing value creation and it covers a wide range of managerial decisions, including strategy, planning and capital allocation. Therefore, a sustained increase of EVA will increase the bank's market value and its maximization can be settled as a target. EVA has some inherent limitations also. Major limitations were generated due to the conventional accounting system that produces time-barred data. Thus, calculating true EVA becomes a challenge. But, the bank managements able to create it personalized through EVA team, formed for successful implementation of the tool. The team are going to be accountable to search out all distortions and also appreciate to convert accounting profit into economic profit. The restrictive authorities ought to guarantee compliance to trading laws by market participants. The authorities need to strengthen their capacity to effectively monitor actives in the market and to effectively deal with offenders. The efficiency of market also creates the shareholders' value. Stock-market-based measures are unable to identify the value-creation performance of individual subsidiaries and banks' business units. The market price may reflect the market's expectations of what corporate management would do with the overall firm, but the market price cannot be used to assign a specific value to individual business units that may have wide variations in their value creation performance. If the intent is to promote value-creating behavior within each business unit, perhaps by linking incentive compensation with wealth-based

measures (e.g., stock options), then wealth-based measures based on the share worth of the general firm square measure merely inadequate. In this case, one must resort to value-creation measures. Reserve Bank of India should ensure compliance related to private sector banks. Satisfying the investor needs and providing relevant information was not only boots investor confidence but it also helps improve the competiveness and informational efficiency of emerging banks. The efficiency of private sector banks also creates the shareholders' value.

CONCLUSION

The results of this study revealed that all the user groups gave maximum importance to future growth prospects in their approach towards predicting economic value added of a bank. Also, the respondents rely more on fundamental analysis and technical analysis in comparison to other sources of information for predicting EVA of the bank. The results also showed the inclination of various respondents towards use of EVA making it an important performance management tool. This may encourage shareholders, banks and other financial market users to apply EVA in evaluating the performance of the banks. Therefore, there is need to educate finance professionals, investors and other relevant groups on the use of EVA. This study concluded that some of the private sector banks created their shareholders value and other banks are trying to create their shareholders value. It was concluded that the ICICI Bank the largest bank managed to have largest amount of Market Capitalization. EVA had influence on their share price of private sector banks. In order to improve, banks need to understand the costs and profit of different activities and services offered by them. Hence, this study can conclude that there was a significant relationship between EVA and share price. Private Banks have high financial indicators.

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