CHAPTER - 2

REVIEW OF LITERATURE

This chapter attempts to review some of relevant theoretical and empirical literature on Shareholder value creation conducted at national and international level. The present study briefly thrashes out the notable research works carried out so far by the leading scholars in this field and thereby identifies the research gap. The present study is an attempt to fill this gap to a certain extent by concentrating on Shareholder Value Creation in the Indian Banks which is the major financial sector of Indian economy.

2.1 LITERATURE REVIEW

☞ **Rappaport (1986)** found that profitability can be considered as a very important value driver. An improvement of profitability can originate from achieving relevant economies of scale, searching for cost-reducing linkages with suppliers and channels, eliminating overhead that does not add value to the product and eliminate costs that do not contribute to buyer needs.

☞ **Varaiya et al. (1987)** found that both profitability and growth influence shareholder value, but profitability has a greater impact. However, their results in case of negative-spread earning firms are not very strong. This study omitted several other variables that are expected to influence shareholder value, and hence it is suspected that the results of the study may be biased.

☞ **Stewart (1991)** was the first person who studied the relationship between EVA and shareholder wealth with market data of 618 U.S companies and presented the results in his book “The quest for value”. He stated that EVA and MVA correspond with each other quite well among selected U.S companies. The study provided the first empirical evidence of EVA’s potential as a proxy for MVA and reported a R2 of
0.97 between changes in EVA and changes in MVA for 25 groupings of firms over the period 1987-88.

- **Uyemura, Kantor et al. (1996)** used a sample of 100 largest banks of United States for the period of ten years from 1986 to 1995 to calculate the correlations between MVA and EVA including with four accounting measures like net income, EPS, ROE and ROA. The regression analysis measured with the variables as performance measures identified EVA as the most powerful performance measures as compared to other accounting measures to explain MVA and shareholder’s wealth.

- **Bacidore et al. (1997)** investigated American’s companies from 1982 to 1992. They suggested the framework for analyzing performance and calculating the shareholder value by using return on investment, which resulted in dividend and change in share price in a period. They also concluded that economic value added is a suitable measure for performance analysis and calculation of the created shareholder value.

- **Kramer and Pushner (1997)** tested the hypothesis that EVA is highly correlated with MVA. The study concluded that no clear evidence to support the contention that EVA is the best internal measure of corporate success in adding value to shareholder investments.

- **KPMG-BS Study (1998)** assessed top companies on EVA, sales, PAT (Profit after Tax), and MVA criteria. The survey has used the BSE 1000 list of companies using a composite index comprising sales, profitability and compounded annual growth rate of those companies covering the period 1996-97. Sixty companies have been found able to create positive shareholder value whereas 38 companies have been found to destroy it. Accounting numbers have failed to capture shareholder value creation or destruction as per the findings of the study. 24 companies have destroyed shareholder value by reporting negative MVA.
Thenmozhi (1999) has taken a sample of 28 companies for a period of three financial years and found that only 6 out of the 28 companies have positive EVA while the others have negative. The EVA as a percentage of Capital Employed has been found to indicate the true return on capital employed. Comparing EVA with other traditional performance measures, the study indicates that all the companies depict a rosy picture in terms of EPS, RONA and ROCE for all the three years. The study shows that the traditional measures do not reflect the real value of shareholders and EVA has to be measured to have an idea about the shareholders’ value.

Damodaran (1999) examined the DCF model and examined ways in which value can be created or destroyed in the company. He also looked at two of the most widely used value enhancement measures, EVA and cash flow return on investment (CFROI), and attempted to justify where these approaches yield similar results to those obtained from traditional valuation models, and where and why there might be differences. He showed that there is something which is new or unique in these competing measures and they might be simpler than traditional DCF valuation but the simplicity comes at a cost that is substantial for high growth firms with shifting risk profiles.

Ben Nacauer and Goaieded (1999) investigated the determinants of value creation among listed Tunisian companies. Their results indicate that firm values are positively and significantly correlated with profitability.

Anand, et.al. (1999) revealed that EVA, REVA (Refined Economic Value Added) and MVA are better measures of business performance than NOPAT and EPS in terms of shareholders’ value creation and competitive advantage of a firm. Since conventional management compensation systems emphasize sales / asset growth at expense of profitability and shareholders’ value. Thus, EVA is a measure that shifts focus on an organizational culture of concern for value.
Mehari Mekonnen Akalu (2000) in her discussion paper observed that the strength of value drivers is crucial to understand their influence in the process of free cash flow generation. The paper addresses the issue of value driver measurement and ranking. The sample size is twenty-two Dutch Public Limited companies operating in manufacturing sector and data have been collected for the period from 1 January 1994 to 31 December 1999. The research result reveals that, value drivers have similar pattern across industries. Furthermore, it is found that the effect of operating cost and interest expenses, on free cash flow, is much more important than sales (revenue).

Dockery et al. (2000) report the results of a survey of European and UK CFOs drawn from 175 large companies on 21 contextual value maximizing strategies clustered around three key categories: operation, investment and capital strategies. The results show that enhancing operating margins, ability to generate new or enhanced products internally and instituting a leveraged buyout are respectively, excellent operating, investment and capital strategies in the creation of shareholder value.

Clare Minchington and Graham Francis (2000), have studied on “Shareholder Value”, and found that the creation of shareholder value is seen as an important objective for companies. This article reviews the theoretical basis for shareholder value calculations, and analyses common measures such as EVA. It concludes with details of recent research conducted by the authors that examines the extent of the adoption of value-based measures.

Ashok Banerjee (2000) has made an attempt to find the relevance of Stewart’s claim that market value of the firm is largely driven by its EVA generating capacity in the Indian context. Based on a sample of 200 firms over a period of five years, the study shows that market value of a firm can be well predicted by estimated future EVA streams.
The study has also found that market value of most of the firms in the sample is explained more by current operational value than future growth value of firms.

Fernandez (2001) analysed 582 American companies and search was made on economic value added and cash value added measure creation for shareholder. He concluded that among 582 companies, 296 companies correlation between increasing market value added yearly and net operating profit after taxes is more than the correlation between the increasing market value added and economic value added.

Christopher D. Ittner, David F. Larcker (2001) applies a value-based management framework to critically review empirical research in managerial accounting and observed the lack of integration between financial and managerial accounting research. With the possible exception of compensation studies, accounting researchers have treated these fields as independent, even though it is likely that these choices do not stand alone. Without greater integration of financial and managerial accounting research, our understanding of the choice and performance implications of internal and external accounting and control systems is far from complete.

Beatrice Nyiramahoro & Natalia Shooshina (2001) examined why old traditional measures are criticized for having low correlation with shareholders’ value creation. The empirical results showed that although the companies have implemented many ways to create shareholders’ value, little effort is being made to measure it since majority of them are still using the traditional accounting measures. They recommended the companies to use ‘value based methods’ while measuring shareholders’ value creation since they are more reliable.

Bartram (2001) explained a comprehensive review of positive theories and their empirical evidence regarding the contribution of corporate risk management to shareholder value. He said that because
of realistic capital market imperfections, such as agency costs, transaction costs, taxes and increasing costs of external financing, risk management at the firm level represents a means to increase firm value to the benefit of the shareholders.

Amy J. Hillman and Gerald D. Keim (2001) tested the relationship between shareholder value, stakeholder management, and social issue participation using the data from S&P 500 firms and found that stakeholder management leads to improved shareholder value, while social issue participation is negatively associated with shareholder value. It was also observed that investing in stakeholder management may be complementary to shareholder value creation and may indeed provide a basis for competitive advantage as important resources and capabilities may be created that differentiate a firm from competitors. On the other hand, participating in social issues may be seen at best as a transactional investment easily copied by competitors.

Ramezani, Soenen and Jung (2002) explore the relationship between growth (earnings or sales) and profitability and between profitability and shareholder value. They use Jensen's alpha as a measure of shareholder value and find that beyond a point, growth adversely affects profitability and destroys shareholder value.

Pablo Fernandez (2002) defined and analysed shareholder value creation. He used the General Electric Company, as an example, between 1991 and 1999. He concluded that in order to obtain the created shareholder value, the firm must first define the increase of equity market value, the shareholder value added, the shareholder return and the required return to equity. He also calculated the created shareholder value of 142 American companies during the three-year (1997 to 1999) and eight-year (1992 to 1999) period.

Pablo Fernandez and Alvaro Villanueva (2004) have undertaken a study on the shareholder value creation of 50 companies listed on Euro Stock Exchange from 1997 to 2003. The companies that created
The companies that destroyed most shareholder value were Nokia, L’Oreal and Ahold. None of the Spanish companies in the Euro Stoxx 50 destroyed shareholder value in 2003. Siemens was the top shareholder value creator and Nokia the top shareholder value destroyer during the seven year period.

**Pablo Fernandez (2004)** defines and analyzes shareholder value creation using the example of two listed companies, General Electric and Microsoft, between 1992 and 2003. A company creates value in one year when it outperforms expectations. The created shareholder value can be calculated as “Created shareholder value is equal to Equity market value*(Shareholder return -Ke)” The created shareholder value can also be calculated as: Created shareholder value is equal to Shareholder value added – (Equity market value *Ke). Author has also calculated the created shareholder value of 400 American companies during the eleven-year period 1992-2003.

**Madhu Malik (2004)** examined the relationship between shareholder wealth and certain financial variables like EPS, RONW and ROCE. By using correlation analysis, it was found that there was positive and high correlation between EVA and RONW, ROCE. There was a positive but low correlation between EVA and EPS. By using coefficient of determination (r^2), EVA was compared with Traditional performance measures and it was found that not a single traditional performance measure explains to the fullest extent variation in shareholder wealth.

**Karam Pal Singh and Mahesh Garg (2004)** examined the disclosure of EVA in Indian corporates. The study revealed that out of 50 companies, only 32 companies have generated positive EVA and 18 companies have destroyed their shareholders' wealth in 1998. In 2000, only 29 companies have generated positive EVA. In 2001, only 34 companies have generated positive EVA. And the same trend continued in 2002. The study also found that one-third of total...
companies are reporting negative EVA throughout the period and another one – third companies are generating positive EVA. It also revealed that only two – three industries are reporting negative EVA and rest are generating positive EVA.

Drury (2004) found that EVA is the long-term counterpart of the discounted NPV. If maximizing NPV is equivalent to maximizing shareholder value, then maximizing the present value of EVA is also equivalent to maximizing shareholder value and Stern Stewart’s & Co. claim that EVA is congruent with shareholder value would appear to be justified. Consequently, if company managers are evaluated on the basis of the long run present value of EVA, their capital investment decisions should be consistent with the decisions that would be taken using the NPV rule.

Singh (2005) examined an appropriate way of evaluating bank’s performance and also found out which Indian banks have been able to create (or destroy) shareholders’ wealth since 1998-1999 to 2002-2003. This study is based on 28 Indian private and public sector banks that are listed on the Bombay Stock Exchange (BSE). The study suggested that the relationship between EVA and MVA is statistically significant. The study showed impressive performance in terms of EVA by banks such as State Bank of Bikaner and Jaipur, Jammu and Kashmir Bank, Global Trust Bank and IndusInd Bank.
N Viswanadham and Poornima Luthra (2005) have used the SPM and EVA models to analyse the four listed players of the software industry using the publicly available published data. We compare the financial data obtained from the models, and use peer average data to provide customized recommendations for each company to improve their shareholder value. Assuming that the companies follow these rules, we also predict future RONW and EVA for the companies for the financial year 2005. The study suggests that reducing fixed assets, accounts receivables and operating expenditure have been identified as areas that require attention by the companies in this industry.

Merchant, Hemant (2005), argues that although industry membership influences firms’ economic performance, it is at least as useful to also focus on firm-level indicators of such membership. This is because firms, even those within the same industry, differ in terms of resources with a potential for creating sustainable competitive advantage. Indeed, the study submits that both levels of factors must be jointly examined to derive a better understanding of shareholder value creation via International Joint Ventures. Using a multi-industry sample of more than 400 equity IJVs, this study demonstrates the interrelatedness between industry structure and resource-based views.

I. M. Pandey (2005) explores the significance of profitability and growth as drivers of shareholder value, measured by the market-to-book value (M/B) ratio. Using panel data and employing the Generalized Method of Moments (GMM) estimator, findings show a strong positive relationship between economic profitability and M/B ratio. Growth, on the other hand, is negatively related to M/B ratio. However, the economic profitability-growth interaction variable has a positive coefficient indicating that growth associated with economic profitability influences shareholder value positively. This finding is further supported when we analyse the relationships separately for the positive-spread firms and negative-spread firms. Results also
indicate negative relationship between M/B ratio and firm size and positive relation with business risk, financial risk and capital intensity.

 Hogan, Chris E and Lewis, Craig M. (2005), documented the changes in investment behaviour that lead to improvements in operating performance and growth opportunities relative to these firms’ past performance for firms that adopted economic profit plans between 1983 and 1996. It is found that anticipated adopters make changes in investment behaviour that reduce invested capital and allow them to become more profitable than a sample of control firms that were expected to adopt but chose to continue using a traditional plan.

 De Wet (2005) suggested that do not support the purported superiority of EVA. The results suggest stronger relationships between MVA and CFO. The study also found very little correlation between MVA and EPS, or between MVA and DPS, concluding that the credibility of share valuations based on earnings or dividends must be questioned.

 De Andrés Alonso(2005), analysed the influence of financial leverage decisions, dividend pay-out policies and the ownership structure on the firm market value when companies either face, or do not face, profitable growth opportunities. A sample of 101 large non-financial publicly-traded Spanish companies is used. The results confirm the relevance of debt and dividends in terms of firm value creation by showing a negative relationship between firm value and both leverage and dividend payments in the presence of growth opportunities. On the contrary, this relationship turns out to be positive when firms have no profitable investment projects. The results also demonstrate the relevance of ownership structure in the allocation of firm resources.

 Balachandran and Sriram (2005) made an attempt to study the value created for the shareholders of the company. They used to determine the relationship between Economic Value Added and
dividend paid to the shareholders. The study revealed that the company had utilized the dividend-paying fund ploughing back into the business. The company was very conservative in declaring dividend and always had a long-term objective of creating wealth to the shareholders, which has been achieved.

John Schuyler (2006) describes an executive information system built around a stochastic model of the enterprise. The forecast of shareholder value generation is the focus metric and BSC centre piece. It is derived from forecasting free cash flow (FCF) aggressively obtained, converting to distribution of net present value (NPV) and calculating the expected monetary value (EMV) and then factoring EMV to obtain market capitalization. The stochastic enterprise model is the core means for evaluating and optimizing alternate corporate strategies and for measuring performance and for credible forecasting.

Chakraborty P.K. (2006) stated that the shareholders’ value creation is the top most priority for the corporate world today. This has gained added momentum with the rising expectation of the shareholders for their value of money. He explained different facets and principles of shareholders’ value creation from professional perspective. He stressed brand management, cost control and cost reduction, employee’s interest and retention as an important area for value creation.

Bhayani (2006) studied economic value added of Cholamandalam Investment and Finance Co. Ltd for the period of 1998-99 to 2002-03. The company has been successfully able to create value for its shareholders. The company’s earnings are much higher than the overall cost of capital. The traditional performance indicators are showing quite high values of ROCE, EPS growth as compared to EVACE. It is observed that the traditional parameters indicated quite a
rosy and healthy picture of the company during all five years of the study.

Benjalux Sakunasingha, (2006) examined what organization factors influence the choice of performance measurement tools and the manner in which the selection and the use of VBM might affect the performance of organizations in Thailand. The result indicates that none of the chosen organization factors studied directly influences the selection and the use of VBM tools. The findings indicated a significant relationship between independent variables, which are organization size and market share position. But these two factors do not establish significantly relationship with the VBM or an organization performance.

Benjalux Sakunasingha, B (2006) in his thesis on “An empirical study into factors influencing the use of value-based management tools” made an attempt to study what organization factors influence the choice of performance measurement tools, such as VBM selected by management. This research also studies the manner in which the selection and the use of VBM might affect the performance of organizations in Thailand. This research indicates that none of the chosen organization factors studied directly influences the selection and the use of VBM tools. In addition, the findings indicated a significant relationship between independent variables, which are organization size and market share position. But these two factors do not establish significantly relationship with the VBM or an organization performance.

Scott Lichtenstein And Pat Dade (2007) have examined the impact of how the values of one executive value group translate into methods of creating shareholder value and proposing the linkage between leaders values and shareholder value. This paper is exploratory in nature. They found that more shareholder value can be created by
understanding the values dynamic and motivating the culture and given the insights into the determinants of shareholder value.

- **Ramachandra Reddy and Yuvaraja Reddy (2007)** examined the effect of selected variables on MVA. This study was conducted with 10 cement companies in India and the objective of this study was to examine the effect of select variables on MVA. For this purpose, Multiple Regression technique has been used to test the effect of select variables on MVA. The study found that none of the factors is found to have impact on MVA and EPS is found to have negative and significant impact on MVA. The study concluded that the performance of select cement companies in terms of profitability cannot be increased unless the improved problems like modernization, cost reduction, control taxes etc., are solved.

- **Husted and Allen (2007)** searched that corporate social responsibility (CSR) leads to competence and value creation. Although leaders in government insist in public that CSR projects create value for the firm, privately they admit that they do not know if CSR pays off. They examined the impact of three strategic CSR variables - visibility, appropriatability and voluntarism - on value creation among large Spanish corporations. The conclusions from these findings suggest that managers need to understand how CSR is similar to and different from other traditional corporate market activities if they are to pursue value creation through CSR.

- **Hejazi and Maleki (2007)** examined measures by which shareholders wealth could be valued. They analyzed the relation of cash value added and price to earnings ratio to future return on stock of 85 companies in Tehran Stock Exchange during 2005 to 2007. The results of the research indicated that informative context of price to earnings ratio is more than the cash value added, related to future return.
Viruli de Silva (2008) focused on the global banks’ performance in year 2007. The sample comprised of 593 stock-market-listed global and specialized companies in the banking industry, which include all major banking players and represent over 75% of the industry's total market capitalization as of January 2008. The author discusses the state of the global banking industry in 2007 and quantifies the drivers of value creation for short-term (one year) and long-term (five year) performance in the global banking industry.

Pierre Erasmus and Retha Scheepers (2008) investigated relationship between the entrepreneurial intensity and the shareholder value created by an enterprise. The study is conducted for a sample of enterprises listed in the industrial sector of the Johannesburg Securities Exchange (JSE) for the period 2003–2005. The results indicate that there is a statistically significant relationship between EI and the change in an enterprise's level of EVA from 2003 to 2005. It appears that companies with higher degrees of entrepreneurship create more economic value added over the longer term.

Mohanty B.K (2008), focused on market capitalization by Indian companies in the last one decade. His analysis is based on different classification such as large cap, midcap and small-cap. He made a systematic analysis of top ten gainers, losers and most wealth creators based on market capitalization and how management should focus on different aspects of wealth creation practices.

Akbar Aminimehr and Badar Alam Iqbal (2008) have studied on the ability of shareholders' wealth creation in Indian Car Manufacturer Companies and identify that created wealth for shareholders is more than other benchmarks. The sample is from Indian Car Manufacturer Companies listed in Bombay stock exchange. This study is on Created Shareholder Value (CSV), Shareholder Value Added (SVA) and Shareholder Return (SR). Trend analysis and statistically analyzes
methods and calculation the rate of growth have used in analysis. The results shows that car manufacturer companies have created value for their shareholders in the period of study and the shareholders' Return has been more than all of the compared benchmarks. Investigation of the mentioned variables in each company also showed that the rate of value created is positive and higher than the Risk Free Rate, Rate of Required Return and Sensex. The trend analysis indicate that accompanying to India economy, the rate of growth of car manufacturer companies also is very high and Shareholders' Wealth position had an ascending rate of growth in the period of study.

A. Vijayakumar (2008) makes an attempt to find the relevance of Stern and Stewart’s claim that MVA of the firm is largely positive associated with or driven by its EVA generating capacity in the Indian context. The sample size is 18 companies and period of study is from 1991-92 to 2003-04. The study is based on secondary data. The major source of data collection for all those companies selected, are from “PROWESS” database, BSE Stock Exchange Official Directory, CMIE Publications, Annual Survey of Industry, business newspapers, reports on currency and finance, libraries of various research institutions, through Internet etc. The results show that NOPAT and RONW are the most significant variable with MVA followed by EVA, ROCE and EPS.

Sujata Kapoor (2009), in her thesis entitled “Impact Of Dividend Policy On shareholders' Value: A Study Of Indian Firms” made an attempt to know the relationship between ownership groups and dividend pay-out of Indian firms and impact of dividend policy on shareholders wealth. She has selected Indian IT, FMCG, and service sector for the study. Statistical tools like factor analysis, regression analysis have been used. The data has been collected from Prowess database of Centre for Monitoring Indian Economy (CMIE). The period for study is from the year 2000 to 2008. It is found that, in FMCG sector investors respond positively to cash dividends announcements.
whether increasing or decreasing. However abnormal returns are created in service sector but they are not sustained over the event window and gradually CAARs (Cumulative average abnormal returns) become negative. It is concluded that dividend announcements create shareholders’ wealth in the FMCG and Service sector.

**Robert Chikwendu Asogwa (2009)** investigates empirically the determinants of shareholder value creation in banks listed in Nigerian Stock Exchange from 2004-2008 using Random Effects Probit (REP) Model. Data has been obtained from annual reports of listed banks supplemented by info- Financial publications and Nigerian Stock Exchange- Stock market data, all for the period 2004-2008. The results show that Random Effects Probit (REP) Model performs better than Standard probit model. The dividend policy is more important for value creation than profitability and earnings growth. The financial/debt policy variables, bank size and structure do not affect value creation but unobservable bank characteristics such as management quality or strategy may be important for value creation.

**Rahnamay Roodposhti (2009)** indicated that there was a relationship between EVA and the financial variables under study including P, EPS and ROI. Also, there was a relationship between MVA and ROI, ROS and RI. In addition, the amount of the relationship EVA and other variables was shown to be higher as compared with MVA and other variables.

**Nikhil Chandra Shil (2009)** has made an attempt to explain theoretical foundation of EVA with its origination, definition, ways to make it tailored, adjustments required, scope and some other related issues. The study found that using EVA only is no case a good decision. Rather, it should be used with other to take decisions more effectively. Thus, a set of tools can be used simultaneously in line with the philosophy of management.
Mandeep Kaur and Sweety Narang (2009) have used Two-value based performance metrics: Economic Value Added (EVA) and Market Value Added (MVA) to investigate the wealth creating capabilities of India’s most valuable companies. These two measures for a sample of 104 companies have been calculated as per the methodology developed by Stern Stewart & Company. The study found that more than 50% of the sampled companies representing India’s wealth club undoubtedly destroyed the wealth of its shareholder. It is also found that out of 12 years of study period (1996-2007), the sample registered negative EVA for eight years consecutively (1996-2003). This study also supports Stern and Stewart’s claim that EVA generated by a company is an important determinant influencing the market value of its shares.

Kaur and Narang (2009) examined the shareholder value creation using two value-based metrics of financial performance viz., EVA and MVA for a sample of 104 Indian companies. The results of the study supported the claim that EVA influences the market value of shares.

Jose´ Manuel Campa and Ignacio Hernando (2009) have examined value generated to shareholders by the announcement of mergers and acquisitions involving firms in the European Union over the period 1998–2000. They found that mergers in industries that had previously been under government control or that are still heavily regulated generate lower value than M&A announcements in unregulated industries. This low value creation in regulated industries becomes significantly negative when the merger involves two firms from different countries and is primarily due to the lower positive return that shareholders of the target firm enjoy upon the announcement of the merger.

data drawn from the annual reports of the entity. He found that the fundamental drivers of value creation for shareholders are profitability, growth, and free cash flow and all the show positive growth for the shareholders of CHL. The main drivers identified for shareholder value creation are enhancement of revenue, better utilization of resources and minimizing overall cost of capital.

G Soral and Shurveer S Bhanawat (2009) has made an attempt to revisit EVA-based analysis for the Indian Banking Industry. A Sample of 14 public sector and 12 private sector banks listed in Bombay Stock Exchange has been selected. The financial data of these sample units for four years, viz., 2003-04 to 2006-07, have been used for the analysis and comparison. Equity approach has been followed to compute EVA. The relevant data required for the present research have been collected from the official websites of the respective banks, BSE and Reserve Bank of India (RBI). The Results of the study shows that Performance of the Indian Banking Industry can be termed as satisfactory regarding shareholder value creation over the years during post liberalization period.

Franco Fiordelisi and Phil Molyneux (2009) examine the determinants of shareholder value creation for a large sample of European banks between 1998 and 2005. They use a dynamic panel data model in which the bank’s shareholder value is a linear function of various bank-specific, industry-specific and macroeconomic variables. They concluded that shareholder value has a positive relationship with cost efficiency changes, while economic profits are linked to revenue efficiency changes. Credit losses, market and liquidity risk and leverage are also found to substantially influence bank performance. These results are robust to a variety of different model specifications.

Gabriela Popa, Laurentiu Mihăilescu and Codin Caragea (2009) observed that EVA is a tool that focuses on maximizing shareholder
Wealth. EVA can be an important tool that bankers can use to measure and improve the financial performance of their bank. Since EVA takes the interest of the bank’s shareholders into consideration, the use of EVA by bank management may lead to different decisions than if management relied solely on other measures.

Daiva Burksaitiene (2009) applied DCF models and found that a company can increase its value by increasing cash flows from current operations, increasing expected growth and the period of high growth and by reducing its structure of financing cost. The value of the company obtained by discounting free cash flows to the company at the cost of capital is same as the value obtained using the EVA model.

Sharma et.al. (2010) have analysed effectiveness of Economic Value Added in selected companies for the period of 2001-02 to 2008-09. They have used traditional measures along with EVA to measure effectiveness of the firm. The result of shows that except few majorities of the sample companies is able to continuously create value for their shareholders during the study period. The study finds that EVA is gaining popularity in India as important measures of firm performance.

Manu Sharma (2010) examines mergers and acquisitions in the United States banking industry involving the formation of mega banks using event study methodology and accounting performance techniques to determine the valuation effects of structural changes that are the result of the merger. Author has studied the cases of five mega mergers. The results show that significant value was created for Citigroup, Wells Fargo and BOA whereas no significant value was created in both the JP Morgan Chase mergers including JP Morgan and Bank One. He has found that event study has shown that value creation didn’t happen for any of the mergers whereas accounting study has shown that the value creation did happen for three out of the five mergers studied.
Magdalena Mikołajek-Gocejna (2010) has conducted a study based on market metrics of value: market value added (MVA) and total shareholder return (TSR), as measures most directly related to the concept of creation of value for shareholders. It has given the difference between the value creation concept and value creation for shareholders and also discussing their excess forms as well. This study has made a conclusion that, the companies with positive TSR beat market expectations and they created value for shareholders. However, it is to be considered that when a company is not able to exceed investors’ expectations, there is always the negative correction in share prices, and shareholders’ wealth is destroyed.

Kaies Samet (2010) discussed the practical case of merger by takeover of the BDET and the BNDT by the STB. The objective of this study is to know whether banking mergers create an added value for the banks concerned with the merger operation and for their shareholders. The period of study extends from the 2/1/1998 to the 31/12/2001. Sample is composed of 10 securities from Tunisian Banking sector. The results showed that the investment made by the STB is not profitable in short and mid runs (No value creation), thus confirming the results of the literature. This result will have to discourage banking mergers in Tunisia, unless contrary results with those found in short and mid runs will take place in the long run.

Félix J. López Iturriaga and Vicente Lima Crisóstomo (2010) examine the effect of the presence or absence of growth opportunities on the subsequent effect of leverage, dividend pay-out, and ownership concentration on firm value using a sample of 213 Brazilian firms listed between 1995 and 2004. The results show that ownership structure has a nonlinear effect—that is, ownership concentration initially improves the value of most firms. However, after a certain threshold, in firms with growth opportunities, the risk increases that large shareholders expropriate wealth at the expense of minority shareholders.
D. Kamalaveni and S. Kalaiselvi (2010) examined the effect of selected variables on MVA in the Indian software industry. The researchers selected 102 software companies for which data were available for minimum eight years. The study concluded that MVA is very important to know the wealth creation by a company. The MVA analysis showed that many companies have destroyed the wealth of shareholders. The regression analysis concluded that MVA is influenced by the Market Price.

Chauhan and Bhayani (2010) have examined the impact of mergers on shareholders’ value creation in Indian industry. This study includes companies which have undergone merger during the period 1st April, 1999 – 31st March, 2000. There are about 196 merged companies in India during above period and we have selected 56 firms for the research to examine pre and post-merger performance of firms covered under the study. The result suggests that firm’s shareholders value creation is highly dependent on Operating expenses, Profit margin, ROCE and Expense ratio. The inter company and inter industry analysis results indicate there is no positive impact of mergers on shareholder value creation.

Nishi S. Jain and N. Sanman Jain,(2011) focuses on the competitive strategies of the banking sector and how the sector derives competitive advantage by adopting different strategies because the sector plays an important role in any economy. The study includes a descriptive research by collecting the information from different banks and analysing it in order to describe the strategies followed by banks to face the global challenges. The study helps in finding that the strategies followed by banks plays a very significant role and banking sector functioning becomes smooth and in turn it helps in the development of the country too. These strategies helps the banking sector to create the healthy financial system as global challenges provide the opportunities to banking sector to grow in both qualitative as well as quantitative.
Mahdi Salehi, Hashem Valipour and Zahra Yousefi (2011) conducted this study to introduce voluble measures to users and increase their understanding. 92 companies listed in Tehran Stock Exchange are selected in the four year period (2005 to 2009). The results of the study reveal that there is meaningful relationship between economic measures and value creation. It is calculated that economic measures, having powerful correlation and determination coefficient have appropriate predictability for value creation as an independent variable. Thus, decision making based on each will lead to different results.

N. Sakthivel (2011) examine the value creation in Indian Pharmaceutical Industry from 1997-98 to 2006-07 by using regression analysis. The objectives were to study impact of EVA and Productivity and financial and economic variables on Value Creation on Indian pharmaceutical Industry. The data was collected from “Capitaline Plus” Database of 15 leading companies from Indian pharmaceutical Industry. It is found that EVA is only variable which has significant influence on MVA of Pharmaceutical companies. Hence, it is concluded that Economic value added has positive significant impact on Value Creation for Pharmaceutical companies.

Dan J. Jordan et al. (2011) examines the market-price to book-value ratio for 6604 bank stock observations from December 31, 2006 through June 30, 2009. The study relates each bank’s market-price to book-value ratio to several fundamental ratios and whether the bank took funds from the US Treasury under the Troubled Asset Relief Program (TARP). The results of this study show that banks who took TARP funds have lower market-price to book-value ratios. In addition, lower relative costs, higher non-interest income, and lower assets in non-accrual or foreclosed status are associated with higher market-price to book-value ratios while controlling for size and other bank attributes.
Rajesh, Raman et al. (2012) investigated a comparative study between EVA and MVA for the selected cement companies in India and found that EVA and MVA play an important role in order to assess the financial performance of the companies. The findings also proved the two measures (EVA and MVA) provide consistent shareholder’s value creation activities.

Patel and Patel (2012) conducted a study with the objective to determine shareholders value (in terms of EVA) of selected private-sector banks during the last five years from 2004-05 to 2009-2010. For none of the bank EVA has impact on share price, except EVA by Kotak Mahindra bank did have significant impact on stock price of Kotak Mahindra bank.

Kasper Wittrup and Jesper Agerholm Jensen (2012), investigate whether drivers of value creation can be found and whether they are implementable. Panel data is collected for 132 banks from 2001 – 2011. They suggest that by implementing a value-based management system and focus on the most important value drivers such as ROA and revenue growth it will increase shareholder value significantly. The findings confirm some of the findings in the key valuation literature but extents them to banks.

John H. Hall, (2012) examined the shareholder value drivers for south African manufacturing firm listed on JSE from 2006-2010.he found that cost of goods to sales percentage, the degree of manufacturing leverage and the capital investment in plant and equipment are significant in explaining shareholder value.

Hennie Fouché (2012) conducted this study with the objective to test what factors can be used to indicate how much value has been created in South African banks listed in the McGregor BFA database. Data have been collected over the period 2001 to 2010 to see the impact of specified metrics on value creation. The results clearly indicate that the chosen metrics works for half of the banks and fails for the other
half. It was also found that the growth in EVA performed best as indicator for value creation.

Shanmuga Pria (2012) intends to examine the relationship between shareholder’s value and financial variables. The Market based measures like Total Shareholder Return (TSR), Market Value Added (MVA) and Future Growth Value (FGV) are considered as dependent variables. Residual Income measures viz., Economic Value Added (EVA) and Cash Value Added (CVA); Residual Income components viz., Earnings Before Interest and Tax (EBIT), Earnings before Interest, Tax and Depreciation & Amortization (EBITDA), Net Operating Profit After Tax (NOPAT), and Return on Net Assets (ROCE); Cash flow measures viz., Cash From Operations (CFO) and Free Cash Flow (FCF); Traditional Valuation Measures viz., Earnings per Share (EPS), Price Earning ratio (P/E), Return on Capital Employed (ROCE), together through variable wise, year wise, have been considered as autonomous variables. All the financial information required for the study was sourced from the CMIE’s Prowess database. A sample of 15 top companies has been taken from engineering industries during the period spanning 1996-2010. Various statistical tools like correlation, regression and discriminant analysis have been used. Regression results show that Economic Value added, Total Shareholder Return and Future Growth value have positive impact on Market Value Added. One of the important outcomes of this exercise is seen in TSR getting explained by EPS and PE in an isolated way, while MVA and FGV are explained jointly by the other variables. The variables explaining TSR – EPS, PE and ROCE show a negative relationship with the dependent variable TSR. Thus, a new breakthrough being established that traditional accounting measures (PE, EPS and ROCE) does not measure shareholder value creation appropriately. Though TSR shows a weak relationship with other dependent variables (MVA, EVA and FGV) the relationship is significant.
Ben Amor Atiyet (2012), have conducted a study on "The Impact of Financing Decision on the Shareholder Value Creation" with the objective to explore an optimal capital structure to maximize the shareholder wealth and to determine the most significant determinants for shareholder value creation. The researcher has used a Panel data of sample of French firms introduced on the stock exchange and belonging to SBF 250 index over a period from 1999 to 2005. The result shows that the self-financing explains positively and significantly the shareholder value creation for both measure (EVA and MVA). The equity issue supply's to explain negatively and significantly the shareholder value for both measure. The financial debt contributes to explain positively and significantly the EVA. But it's negatively related to MVA. The Pecking Order Theory and the Static Trade-off Theory found contradictory predictions in term of the impact of the financial structure on the shareholder value creation.

Amalendu Bhunia (2012) examined the relationship between shareholder's value and financial variables and tested whether value based frameworks are applicable in Indian condition or not. The study is based on secondary data obtained from the various data sources including CMIE prowess database for the period from 1996 to 2010. A sample of 155 top companies has been taken from Indian industries during the period spanning 1996-2010. In the course of analysis, linear regression, factor analysis and multiple discriminant analysis have been modelled. Empirical results show that effect shareholder value creation might lead to more information and insight. Although large sample statistical research of the type of this study was a powerful means of identifying the general relationships between pairs of variables.

Thomas Korankye (2013) aims at determining the determinants of shareholder value creation of listed banks in Ghana. The analyses are performed using panel data derived from the financial statements of the listed banks on the Ghana Stock Exchange (GSE) from 2006 to
The results show that leverage, dividend policy, and return on equity respectively are statistically significant positive determinants of shareholder value. This reveals that increase (or decrease) in leverage, dividend pay-out and profitability respectively enhances (or attenuates) the wealth of shareholders. The results also reveal that bank size is a significant determinant of shareholder value, but it is negatively related to the latter. Finally, although bank nature has a positive coefficient, it is not significant in determining shareholder value.

Pratapsinh Chauhan and Vijay K Patel (2013) attempted to analyse the value creation in 10 Indian Pharmaceutical Companies from 2000 to 2009 by using regression analysis. They have found that the firm’s return on investment is highly dependent on economic return on net worth, debt equity ratio, creator’s velocity and price earnings ratio.

Mahmoud Samadi Largani et al. (2013) investigated the relationship between Shareholder Value Added (SVA) and accounting performance measures (Earning per Share ‘EPS’ and Cash Flow from Operating ‘CFO’) in Tehran Stock Exchange. They examined the Shareholder Value Created in Iranian Companies by Alfred Rappaport model and to assess the relationship, liner multiple regression tests were used and the data related to 75 companies during 2006 to 2010 were gathered from Tehran Stock Exchange. The results indicated that the SVA measures have a positive significant relationship with Earning per Share in Tehran Stock Exchange accepted companies so as the correlation between the accounting measure of EPS and the SVA measure has been nearly equal in that period.

Madan Lal Bhasin (2013), conducted a research study with objectives to examine whether the sample companies has been able to generate value for its shareholders or not. He has selected five leading and globally well-known Indian companies, namely, Bharat
Heavy Electricals Limited, Hero MotoCorp (HM Corp) Limited (formerly known as Hero Honda Motors Corporation), Infosys Limited, L&T Limited, and TCS Limited. This study is primarily based on the secondary sources of data and covers a period of five years from 2006-07 to 2010-11. Various statistical tools like ANOVA, trend analysis and regression analysis are used for analysing the data. The results show that there is no strong evidence to support Stern Stewart’s claim that EVA is superior to the traditional performance measures in its association with MVA.

Kolawole Olugbenga Oladele (2013) made an attempt to identify the determinants of value creation in the Nigerian banking industry. The data for the study are secondary (cross-sectional and time-series) data. The sample is of 21 universal banks listed on the Nigerian Stock Exchange (NSE). The data collected are analysed using the Ordinary Least Squares Method. It is found that in the Nigerian banking industry, profitability and dividend policy have significant relationships with the creation of shareholder value while financial policy does not have a significant relationship.

Jeong Yeon Lee, Doyeon Kim (2013) have made an attempt to develop a measure of bank performance based on the Malmquist index approach to supplement existing financial ratios such as ROA and ROE by explaining some of the limitations of these ratios. They found that a certain type of ownership such as foreign international banks has the potential to significantly improve bank performance while the management control of government or foreign buyout funds has mainly unfavourable effects on bank performance.

Pradeep Kumar Singh, Rakesh Anand (2013) value creation with the help of market capitalization and to evaluate the contribution of market capitalization in the creation of intangible assets. This research study is a macro nature case study which is based on the secondary source of data of 08 leading Indian automobile companies.
listed on BSE. Data related to market capitalization has been collected from their published annual reports and official websites of the sample companies for the last 6 financial years (From 2004-05 to 2009-10). It is found that in the automobile industry the brands are attracting and retaining customers, resulting in higher market share, higher turnover, higher profitability and maximization of shareholders value. Results also indicate that higher market capitalization creates higher intangibles which ultimately enhance shareholders value in long run.

\textbf{Bhargav Pandya and Shantanu Mehta, (2013)} aims at measuring created shareholder value in Indian banks for the period 2005-2010 taking sample of ten public and eleven private sector banks to conduct the study. The financial data of sample companies were collected from “Prowess”. It was found that Both public and private sector banks have witnessed ups and down in their created shareholder value figures during the study period which supports the hypothesis that there is no significant difference between shareholder value creation of public and private sector banks.

\textbf{Aasif Shah, Malabika Deo (2013)} attempts to examine the impact of merger on the stock price behaviour of acquirer as well as the target shareholders in the Indian banking industry. This study uses OLS Market Model and Constant Market Model to study a sample of (17) merger announcements both by Private and Public sector banks. The results show that none of the average CAR appeared statistically significant when Global Trust Bank (GTB), a loss making bank is included in the overall target portfolio. The average CAR changes immediately to significant positive returns in all the run-up windows when the same bank is expelled from the target sample. Further the study found the negative abnormal returns for most of combined private sector banks.
Shrikant Panigrahi et al. (2014) investigated the influence of management decisions like capital structure, dividend policies, remunerations, credit policy decisions and investment decisions on shareholder wealth maximization. This study is based on the secondary data covering a period of 7 years ranging from 2005-2006 to 2011-2012. The sample is drawn from construction companies that are listed in Kuala Lumpur stock exchange. They found that due to inadequacy of accounting measures, a new reliable indicator is a top priority for researchers, managers and investors. The Economic profit model calculates the actual or economic profit after taking into account the full cost of all sources of capital used. This rises to an important accounting correction of the accounting profit not taking into account opportunity cost of equity capital used.

Shrikant Krupasindhu Panigrahi et al. (2014) utilizes economic measures like Economic Value Added (EVA) and Market Value Added (MVA) combined with the accounting measures to perform a comparative study in order to conclude the most appropriate measures for the creation of shareholder’s wealth. The EVA of 28 construction companies from the total 43 construction companies listed in Bursa Malaysia were selected for the study and analysed during the period of 2003 to 2012. It was found that very few of the construction companies were having positive EVA for the creation of Shareholder’s wealth. It was also found that there is a strong relationship between created shareholder’s value and economic value added.

Reshu Sharma & Swati Sharma (2014) found that in India many socio-economic changes are taking place and Indian banks should come forward to play this role in the process. The primary growth drivers that will help transform the Indian banking sector include financial inclusion, enhanced payment systems, internet and mobile systems which will lead the banking sector to achieve its aim of expansion and growth. With one of the reform measures i.e. passing of
the Banking Laws (Amendment) Bill, 2011, there will be way for more banks and foreign investments to enter the banking industry.

- **Prof. Minakshi Dattatraya Bhosale (2015)** has given an overview of Indian Banking sector. She found that the role of banks is not only directly important, but also it is extremely needful in the precise conduct of the programs developed by the government. In order to change the social and economic structure of the country, the bank shall have to adopt the advanced technologies with innovative services to increase the customers of the bank.

- **Najmus Sahar Sayed and Gazia Sayed (2015)** conducted a study on “Indian Banking Sector: Measurement and Analysis of Market Value Added An Empirical Study in the Select Indian Banks”, with the objective are to study the impact of MVA on Value Creation in Indian banks and to examine the relationship between MVA and other traditional measures of corporate performance. This study is based on the secondary data and data is collected from the annual reports of the selected banks, Ace Equity software, research journals, business magazines, various financial dailies, reports, websites etc. for the period of 10 years i.e. 2003 to 2012. The sample size is 37 banks listed on the Bombay Stock Exchange 2012, of which 15 are private sector banks and 22 are public sector banks. Dividend Yield and Dividend Pay/Out Ratio are having highest impact under overall analysis. This implies that wealth creation is strongly influenced by the returns provided to the shareholders. It has been concluded that MVA, the best indicator of wealth is influenced by Dividend paid by the Indian banks to the shareholders.

- **Latha Chari and R. P. Mohanty** explain the concepts of value from two perspectives, namely: stakeholders and shareholders. Value perception differs for different stakeholders. It is attempted here to explain the measures of value for stakeholders as well as for shareholders. Different methods used for computation of shareholder
value are illustrated through a case example of ABB attempting to understand the all-inclusive meaning of value. The future growth value does not seem to have a significant impact, as shown in the case of ABB Ltd. This results in short term distortions in the market value which is corrected in the long run. Further, the market value of the shares is also affected by numerous other factors, like general market sentiments, global market movements, etc., which are not factored into the above model.

- **John H Hall** aimed to address issues of shareholder value creation using the EVA model of value creation. One can conclude that initially profitability (income statement) ratios are the most important factors in the wealth creating process. However, as companies become established and keep improving on their performance, profitability ratios become less important. Efficient financing of the balance sheet, efficient fixed asset and working capital management become top priorities in creating shareholder value.

- **Erik Stern** has transformed the corporate finance scene and business practice by transferring modern business theory from classroom to boardroom and found that at its best EVA is not just a financial metric, it is a complete management system focused on value creation. Incentive-based EVA uniquely aligns the interests of managers, employees, and stockholders. Bold implementation of EVA signals the beginnings of transparency and accountability, though it is too often the subject of lip service. Implementing EVA half-heartedly or without incentives spells disappointment. A balanced scorecard demands EVA as the balancing mechanism. EVA covers everything managers can influence, and therefore all drivers of value.

- **Eduardo Sandoval** have focused on the most important sixty-two Chilean companies and studies whether EVA dominates REVA (re-defined EVA) and competing accounting measures (Net-income and Operating cash flow) for the 1994-1999 period in explaining
shareholder value creation. Results indicate that REVA outperforms competing alternative accounting measures in association among their current realisations and value creation. REVA explains value creation only for construction and investment industries and concluded that accounting measures should be only considered as marginal complementary performance measures used to compensate executives mainly from the electric, beverage, metallurgic and pension fund industries.

**Anjan V. Thakor, Jeff DeGraff et al.** have identified a range of myths which cloud people’s thinking and found that the real myth is that it is appropriate to apply generalisations about value creation to all companies, regardless of how they are strategically positioned in the four quadrants. An exclusive focus on shareholder value may be the key to creating shareholder value for a company like Wal-Mart that is primarily positioned in the Market Awareness quadrant. It might prove to be the death knell though for an Internet start-up or one like Walt Disney which may be positioned largely in the Capabilities and Innovation quadrants of the same figure.

### 2.2 RESEARCH GAP

The review of above studies indicates that shareholder value creation is a vital research area to be explored further in Indian perspective. Several studies have been found in the literature at national and international level which supports EVA as the best measure of firm’s performance and its shareholder value creation. Several other studies are in contradiction with these results which are rather in favour of the value based measures as better determinants of Shareholder value. Thus, these results are controversial and indicate the need of identifying the determinants of shareholder value and searching out for the best ones. Shareholder value creation in banks is found to be interested area of research in international studies. Recent financial crisis have adversely affected the shareholder value of banks in many countries. Very few studies are found
on shareholder value creation in Indian Banking sector, which is the major upcoming sector of Indian economy: this signifies the need of the hour to explore this sector as regards its shareholder value creation and identify the major determinants of shareholder value and measure their interrelationships. This study will help thereby to suggest some strategies to the Indian Banks for enhancing their shareholder value creation and framing appropriate policies to attract their shareholders.

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