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The Search for the Best Financial Performance Measure

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Abstract

Refined economic value added (REVA) provides an analytical framework for evaluating operating performance measures in the context of shareholder value creation. Economic value added (EVA) performs quite well in terms of its correlation with shareholder value creation, but REVA is a theoretically superior measure for assessing whether a firm's operating performance is adequate from the standpoint of compensating the firm's financiers for the risk to their capital. In this article, comprehensive statistical analysis of both REVA and EVA is used to estimate their correlation with and their ability to predict shareholder value creation. REVA statistically outperforms EVA in this regard. Moreover, the realized returns for the 1988–92 period for the top 25 REVA firms were higher than the realized returns for the top 25 EVA firms.

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