International Journal of Current Advanced Research
ISSN: O: 2319-6475, ISSN: P: 2319-6505, Impact Factor: 6.614
Available Online at www.journalijcar.org
Volume 7; Issue 6(K); June 2018; Page No. 13835-13840
DOI: http://dx.doi.org/10.24327/ijcar.2018.13840.2485

Research Article

MEASURING THE VALUE CREATION OF INFOSYS THROUGH ECONOMIC VALUE ADDED (EVA)

Amarjeet K. Malhotra*

Ansal University, Gurgaon

A R T I C L E I N F O

Article History:

Received 12th March, 2018
Received in revised form 24th April, 2018 Accepted 5th May, 2018
Published online 28th June, 2018

Key words:

Economic Value Added, EVA, Shareholder Value, Capital Cost, Earning Per Share.

A B S T R A C T

One latest innovation in the field of internal and external performance measurement is a trade-marked variant of residual income known as Economic Value-Added (EVA). Several well known companies have begun to use EVA in recent years as an internal measure of performance, and one may speculate that its popularity will only persist. The purpose of this paper is to provide an overview and analysis of the Economic ValueAdded (EVS) metric.This paper highlights someadvantages and disadvantages from its proponents and critics.A case of Infosys has been taken to explain EVA concept, where the financial data for five consecutive years has been obtained for this company and EVA has been calculated. Three variants of the relationship between the value of the EVA indicator and investors' behavior as suggested by Fernández, Pablo in 2000have been applied on the financial data of Infosys. The EVA calculations show that Infosys creates value for the shareholders. Even if more pessimistic figures are used for the capital cost, EVA shows that Infosys created value each year, and even incrementally. This paper concludes that economic value added has a significant relationship with the shareholders' created wealth though this concept has many limitations when it comes to comparability.With mounting pressure on firms to deliver shareholder value, there has been a transformed emphasis on devising measures of corporate financial performance and incentive compensation plans that encourage managers to increase shareholder wealth justifies why the concept of EVA is gaining momentum.

INTRODUCTION

The primary objective of commercial organisations is normally assumed to be the maximisation of the wealth of its shareholders; resulting into an understanding that a performance measures should evaluate this.A successful performance measure should be able to evaluate how well an organization performs in relation to its objectives. In practice, many organisations use profit-based measures as the primary measure of their financial performance. Two problems relating to this measure are (i) Profits ignore the cost of equity capital; (ii) Profits calculated in accordance with accounting standards do not truly reflectthe wealth that has been created, and are subject to manipulation byaccountants. Since, companies only generate wealth when they generate a return in excess of the return required by providers of capital – both equity and debt. In financial statements, the calculation of profit does take into account the cost of debt finance, but ignores the cost of equity finance.

Corresponding author:* **Amarjeet K. Malhotra
Ansal University, Gurgaon

Economic Value Added or EVA is a performance measurement system that aimsto overcome these two weaknesses. EVA was developed by the US consulting firmStern Stewart & Co, and it has gained widespread use among many well-knowncompanies such as Siemens, Coca Cola and Herman Miller.

At present, most financial analysts believe that companies should create a turnover higher than the capital cost (combined for debt and equity funds) in order to create value. Astute investors, always eager to make above-average returns on their funds, have begun to pay more attention to non-traditional measures of financial performance that measure value, than to traditional accounting measures (Dillon & Owers, 1997). This value has been defined as the "true economic profit" that a company can be assessed for (Value Based-EVA, 2008). Many managers have begun to use EVA or similar concepts to judge the impacts of present decisions and to help make future ones (Shaked & Leroy, 1997). Many experts believe that making financial decisions based only on accounting data can hurt a company (Stewart, 1991). Economic Value Added (EVA) is a useful financial metric that measures value based on adjusted accounting data to assess financial performance and help a company grow (Stewart, Makelainen & Roztocki, 1998). Thusly, the Economic Value Added metric, while somewhat

unconventional by traditional standards of financial performance, appears to be a very useful measure for corporate performance (Shaked & Leroy, 1997).

LITRATURE REVIEW

Economic Value Added (EVA) is a company performance measurement introduced in the corporative environment by General Motors in 1920 and then forgotten, until Stern Stewart Company; a consulting company from New York reintroduced it in the '80s, as a replacement for the traditional value measurements (Black, Andrew, 1998). It was found that Economic Value Added was the most known instrument for measuring the managerial performance by means of the value created for the shareholders. EVA is an indicator measuring the corporative performance in a different manner from that of the other indicators, used until it was introduced on the market, because it suggests profit adjustment by the capital cost (Black, Andrew,1998). EVA is used as an independent variable which presents the residual income after covering the capital costs (Azad, M., 2007).

According to conventional accounting wisdom, earnings per share, or EPS (perhaps the most common financial metric), is the key financial metric for financialperformance assessment (Stewart, 1991). Most likely, it is one of the most widely used and well known financial metric in the business world. Some experts in the field of finance believe that EPS ratios change too quickly and toomuch to be of any real use for financial analysis (Stewart, 1991). Even worse, they arebased on historical costs that are usually unadjusted for present use. Those dissatisfied with using EPS (and similar accounting metrics) as an indicator of financial performance have turned to using "value-based performance measures" instead (Roztocki & Needy, 2007).Critics of EPS and similar accounting metrics cite several other reasons why theyare disappointed with the dominance of using EPS as a measure for growth and performance. According to many analysts, making decisions using EPS (and subsequently the Generally Accepted Accounting Procedures, or GAAP necessary toarrive at EPS) appears to be the cause for a large amount of misappropriation of funds among companies (Stewart, 1991). Analysts such as G. Bennett Stewart III show that the use of the current standard accounting procedures (GAAP) causes companies to do apparently irrational things to keep a good EPS figure. Critics of maximizing EPS claim that growing the EPS metric is the force behind much waste and lost opportunities among companies that should be realizing more growth. In spite of the above-mentioned problems, many managers still pursue EPS figures because they believe that good EPS figures appeal to investors and influence stock prices (Stewart, 1991). However, in this pursuit of growing EPS to attractinvestors, the managers tend to compromise the financial strengths of their companies. Managers who believe that share prices are moved by the movement of EPS are in reality taking the wrong road toward the right goal of stock price control. On the other hand, analysts who prefer to measure value instead of earnings believe that what investors really desire is not a high EPS , but instead a high cash value of the company (based on future cash flows). This is also what they believe is the reason that stock prices change; change in value causes change in share prices. These analysts believe that firms should attempt to increase "value" instead of EPS, and therefore measure financial performance by a value-measuring metric instead of EPS (Stewart, 1991).

Objectives

- To critically review the concept of Economic Value Added (EVA).
- To apply the concept of EVA on the financial data of Infosys to find out whether the company creates shareholders wealth or not if EVA is applied?
- To test the EVA indicators and investors' behavior on Infosys as suggested by Fernández, Pablo in 2000

Research Method

This is a descriptive study in nature, where the concept of EVA has been applied on Infosys by using the case study method. The financial statements for five consecutive years have been obtained from moneycontrol.com. Adjustments as suggested by Stewart (1991) have been applied on the financial data and EVA has been calculated for five years. On the EVA results, the indicators suggested by Fernández, Pablo (2006) have been applied to find out whether theInfosys creates value for the shareholders or not if the more rigorous test like EVA is applied on it. The second objective of the study has been answered through extensive literature review.

Economic Value Added (Eva): An Indicator Presentation

Economic Value Added is such a metric that seeks to improve and measure efficiency and "value creation" (Shaked & Leroy, 1997; Stewart, 1991). G. Bennett Stewart, originator of EVA and author of one of the largest works on the subject, believes that accounting earnings and dividends (and EPS) are irrelevant concerning stocks and their valuation. He says that "Management should focus on maximizing a measure called Economic Value Added, which is the only measure to tie directly to intrinsic market value" and that EVA should replace EPS (Stewart, 1991).

EVA = NOPAT adjusted- CMPC *CT adjusted
or
EVA = CT adjusted * (adjusted return of the capital - CMPC)

NOPAT-- is the net operating profit after taxes and it's calculated as follows:
NOPAT = sales – operational expenses (depreciation included) – corporate income tax
CMPC -- Weighted average cost of capital
CT-- Total capital

Here, capital represents the operational capital of the company and it is calculated as the sum between the need of operational working capital (operational NFR = operational current assets – current liabilities without interest) and the net value of the tangible assets (tangible assets value – depreciation). To properly express the firm's situation and to make easier the comparison between the EVA of different companies, Stern Stewart suggests a series of adjustments of the accounting data, presented within the exemplification of the calculation manner. It is considered that EVA offers a many-sidedpoint of view on the company performance. Managers are guided to center their attention not only on the profit and loss account, but also on the balance sheet. EVA is considered better than TSR because it offers a basis for comparison between companies, as it also uses in the calculation the capital cost, which also takes into account the risk degree of the company (Fernández, Pablo, 2000a). The results obtained by means of the economic value added method answer the question

regarding the capital use efficiency and company value increase. We shall analyse three variants of the relationship between the value of the EVA indicator and investors' behavior (Fernández, Pablo 2000b):

1. If EVA>0, the relevant company or its departments gain more than the weighted average value of the capital, therefore value creation occurs. The positive value of the EVA value shows an efficient use of the capital and represents an index of company value increase.
2. If EVA=0, the analysed company or its departments gain exactly as the capital cost level, meaning that the relevant company has the same value as in the moment investments were made in it. This is a notable feat, because the company capital owners recovered their investment and compensated the assumed risk.
3. If EVA<0, the analysed company or some of its departments do not recover the capital cost. Investors could have obtained a higher profit elsewhere, with the same risk. The negative value of the EVA indicator shows an inefficient use of the capital and a decrease of the company value.

Adjustments to EVA

The adjustments required in the EVA analysis are extremely important to both theaccuracy and identity of the EVA metric. An unadjusted EVA calculation does not necessarily reflect the current financial position of acompany (Investopedia: EVA, 2008). One can make over 165 adjustments tothe EVA equation; many experts believe that a simpler equation is a better equation, and that it is usually best to keep the amount of adjustments under 20. One may also note that several companies have successfully used around five or six adjustments, depending on what the company thinks is best (Anderson, Bey, & Weaver, 2005).Data gathering research has found that the most popular adjustments include thoseto "successful efforts accounting, research and development, deferred taxes, provisions, warranties and bad debts, LIFO reserves, depreciation, goodwill, operating leases, restructuring charges, and accounting for capital charge" (Rappaport, Alfred 1998).

Moreover, the formula suggested by Stern Stewart contains a multitude of adjustments, to eliminate the influence of the accounting policies. In this case, calculations become more complicated, but, at the same time, the obtained results are closer to the real value of company performance. Therefore, the first step in applying EVA is to decide the necessary adjustments to the accounting data. The main adjustment could be: recognizing research-development expenses as capital investments, recognizing other expenses as investments, adding depreciation to the profit, tax adjustment, and balance sheet adjustments. To decide what adjustments to make, first it should be decided that they are material, namely that they influence the value for the shareholders. While not specifically mentioned in the EVA metric, it is important to consider differing views on how to treat taxes with an EVA calculation. The formula for EVA is constructed to exclude factoring in taxes as part of the equation, and some experts agree that this is the most desirable way to deal with them in the analysis (Mäkeläinen, 1998).

Stewart, like other authors on this topic, acknowledges that calculating the cost of capital is not an easy thing to do. He notes that there are actually four components that build the cost of capital (four different costs). They are the costs of "business risk," "borrowing," "equity," and "weighted average cost of capital," the last of which is most relevant to the calculation of EVA and "is the blended cost of the firm's debt and equity" (Stewart, 1991). Of the two costs that the weighted average cost of capital can be broken down to two, the cost of debt is easier to calculate. This cost is calculated as the cost of acquiring debt capital at the present time. The current rate of a company's debt capital (as a calculation of its yield to maturity, or the amount that one would receive by keeping it until its due date) is the preferable way to estimate this cost, but an industry average can be used as well (Investor Words, 2008). So, the difficulty of calculating the cost of capital mostly comes from calculating the cost of equity.

Exemplification- A Case Analysis of Infosys

To exemplify, the first formula mentioned above was chosen.

Table 1 EVA calculation for Infosys

Amount in Million as on 31st March	2013	2012	2011	2010	2009
Adjusted NOPAT (A)	7774	6951	6036	5645	6013
Net operational profit =(sales – operational expenses)	10059	9267	7674	6555	6214
+ Current depreciation	956	794	740	807	694
+ Advertising costs	Nil	Nil	Nil	Nil	Nil
- Corporate income tax	3241	3110	2378	1717	895
Adjusted TC	36059	29757	24501	22036	17809
Balance sheet Liabilities	39059	29757	24501	22036	17809
+ Advertising costs	Nil	Nil	Nil	Nil	Nil
- Advance expenses	Nil	Nil	Nil	Nil	Nil
+ Sure debts for operational leasing contracts not recorded in the balance sheet	Nil	Nil	Nil	Nil	Nil
CMPC	39059	29757	24501	22036	17809
Capital cost (WACC)	12.76	12.34	11.54	11.21	10.60
CMPC *CT adjusted (B)	4983	3672	2827	2470	1887
EVA (A – B)	2791	3279	3209	3175	4126
EVA/Capital Ratio	7.14	11.02	13.09	14.40	23.16
EPS	158.75	147.50	112.22	101.13	101.58

Source: Author's calculations

EVA calculation started from the operational profit from the profit and loss account of the company, to which the current depreciation was added, and the taxes owed to the government were deducted. To calculate the invested capital, it was started from the total liabilities from the balance sheet (table 3) of the company. Though, as per the formula discussed above, sure debts for operation leasing contract, not recorded in the balance sheet, and the advertising costs were to be added and advance expenses were to be deducted. However, since these variables were not applicable with respect to Infosys, hence were not included. Below, we shall make a detailed presentation of the adjustments made to NOPAT and to the total capital, as well as the reason for making such adjustments.

EVA represents the earning in excess of the operational activities and, in this regard, to calculate EVA, we should take into account only the balance sheet values which are related to the operational activity. In the calculation of the adjusted NOPAT for the Infosys, expenses related to interest for loans or leasing were not taken into account, because NOPAT must be a figure before the financing expenses are charged. The same will be taken into consideration in the whole cost of the

capital. If they had been deducted from the income, it would have meant to take two times into consideration the borrowed capital cost in EVA calculation. Also, exceptional incomes (such as those from share transactions, asset selling or asset evaluation method change) were not taken into account in NOPAT calculation. The reason would be that the company management should focus on the long-term influence activities, and not on the short-term advantages from transactions which will not be repeated.

Table 2 Income Statement of Infosys (Year 2009-2013) (Rs. in Crore)

	Mar '13	Mar '12	Mar '11	Mar '10	Mar '09
	12 mths	12 mths	12 mths	12 mths	12 mths
Income					
Sales Turnover	36,765.00	31,254.00	25,385.00	21,140.00	20,264.00
Excise Duty	0.00	0.00	0.00	0.00	0.00
Net Sales	36,765.00	31,254.00	25,385.00	21,140.00	20,264.00
Other Income	2,298.00	2,313.00	1,147.00	967.00	502.00
Stock Adjustments	0.00	0.00	0.00	0.00	0.00
Total Income	39,063.00	33,567.00	26,532.00	22,107.00	20,766.00
Expenditure					
Raw Materials	0.00	0.00	0.00	22.00	20.00
Power & Fuel Cost	0.00	0.00	0.00	0.00	125.00
Employee Cost	19,932.00	15,481.00	12,464.00	10,356.00	9,975.00
Other Manufacturing Expenses	2,969.00	3,947.00	3,196.00	1,993.00	1,697.00
Selling and Admin Expenses	0.00	0.00	0.00	992.00	1,367.00
Miscellaneous Expenses	2,849.00	1,765.00	1,311.00	415.00	172.00
Preoperative Exp Capitalised	0.00	0.00	0.00	0.00	0.00
Total Expenses	25,750.00	21,193.00	16,971.00	13,778.00	13,356.00
	Mar '13	Mar '12	Mar '11	Mar '10	Mar '09
	12 mths	12 mths	12 mths	12 mths	12 mths
Operating Profit	11,015.00	10,061.00	8,414.00	7,362.00	6,908.00
PBDIT	13,313.00	12,374.00	9,561.00	8,329.00	7,410.00
Interest	0.00	0.00	0.00	2.00	2.00
PBDT	13,313.00	12,374.00	9,561.00	8,327.00	7,408.00
Depreciation	956.00	794.00	740.00	807.00	694.00
Other Written Off	0.00	0.00	0.00	0.00	0.00
Profit Before Tax	12,357.00	11,580.00	8,821.00	7,520.00	6,714.00
Extra-ordinary items	0.00	0.00	0.00	0.00	-1.00
PBT (Post Extra-ord Items)	12,357.00	11,580.00	8,821.00	7,520.00	6,713.00
Tax	3,241.00	3,110.00	2,378.00	1,717.00	895.00
Reported Net Profit	9,116.00	8,470.00	6,443.00	5,803.00	5,819.00
Total Value Addition	25,750.00	21,193.00	16,971.00	13,756.00	13,336.00
Preference Dividend	0.00	0.00	0.00	0.00	0.00
Equity Dividend	2,412.00	2,699.00	3,445.00	1,434.00	1,345.00
Corporate Dividend Tax	403.00	438.00	568.00	240.00	228.00
Per share data (annualised)					
Shares in issue (lakhs)	5,742.36	5,742.30	5,741.52	5,738.25	5,728.30
Earning Per Share (Rs)	158.75	147.50	112.22	101.13	101.58
Equity Dividend (%)	840.00	940.00	1,200.00	500.00	470.00
Book Value (Rs)	627.95	518.21	426.73	384.02	310.90

Source: Dion Global Solutions Limited

The expenses related to depreciation or provisions were neither taken into account (namely they were added to neutralize those expenses already deducted from the profit), as it is desired to remove the influence of the various accounting practices on the company results. The expenses related to research-development, advertising or employees' training were not taken into consideration too as Stern & Stewart (1991)suggests they are considered as capital investments.

The EVA model suggests that goodwill amortization should not be taken into consideration either (namely it should not be added to NOPAT). However, Infosys does not make a goodwill amortization, and, therefore, it was not necessary to adjust the profit for that reason.

Table 3 Balance sheets of Infosys (Year 2009-2013) (Rs. in Crore)

	Mar '13	Mar '12	Mar '11	Mar '10	Mar '09
	12 mths	12 mths	12 mths	12 mths	12 mths
Sources Of Funds					
Total Share Capit	287.00	287.00	287.00	287.00	286.00
Equity Share Capital	287.00	287.00	287.00	287.00	286.00
Share Applicatio Money	0.00	0.00	0.00	0.00	0.00
Preference Share Capital	0.00	0.00	0.00	0.00	0.00
Reserves	35,772.00	29,470.00	24,214.00	21,749.00	17,523.00
Revaluation Reserves	0.00	0.00	0.00	0.00	0.00
Networth	36,059.00	29,757.00	24,501.00	22,036.00	17,809.00
Secured Loans	0.00	0.00	0.00	0.00	0.00
Unsecured Loans	0.00	0.00	0.00	0.00	0.00
Total Debt	0.00	0.00	0.00	0.00	0.00
Total Liabilities	36,059.00	29,757.00	24,501.00	22,036.00	17,809.00
	Mar '13	Mar '12	Mar '11	Mar '10	Mar '09
	12 mths	12 mths	12 mths	12 mths	12 mths
Application Of Funds					
Gross Block	4,453.00	4,061.00	4,056.00	6,357.00	5,986.00
Less: Accum. Depreciation	0.00	0.00	0.00	2,578.00	2,187.00
Net Block	4,453.00	4,061.00	4,056.00	3,779.00	3,799.00
Capital Work in Progress	1,135.00	588.00	249.00	409.00	615.00
Investments	4,344.00	1,409.00	1,325.00	4,636.00	1,005.00
Inventories	0.00	0.00	0.00	0.00	0.00
Sundry Debtors	6,365.00	5,404.00	4,212.00	3,244.00	3,390.00
Cash and Bank Balance	20,401.00	18,057.00	13,665.00	929.00	805.00
Total Current Assets	26,766.00	23,461.00	17,877.00	4,173.00	4,195.00
Loans and Advances	6,330.00	6,296.00	5,347.00	4,201.00	3,303.00
Fixed Deposits	0.00	0.00	0.00	8,868.00	8,234.00
Total CA, Loans & Advances	33,096.00	29,757.00	23,224.00	17,242.00	15,732.00
Deffered Credit	0.00	0.00	0.00	0.00	0.00
Current Liabilitie	3,181.00	2,454.00	1,880.00	1,995.00	1,544.00
Provisions	3,788.00	3,604.00	2,473.00	2,035.00	1,798.00
Total CL & Provisions	6,969.00	6,058.00	4,353.00	4,030.00	3,342.00
Net Current Asset	26,127.00	23,699.00	18,871.00	13,212.00	12,390.00
Miscellaneous Expenses	0.00	0.00	0.00	0.00	0.00
Total Assets	36,059.00	29,757.00	24,501.00	22,036.00	17,809.00
Contingent Liabilities	1,693.00	1,024.00	1,016.00	295.00	347.00
Book Value (Rs)	627.95	518.21	426.73	384.02	310.90

Source: Dion Global Solutions Limited

From the EVA calculations shown above it results that Infosyscreates value for the shareholders. Even if more pessimistic figures are used for the capital cost, EVA shows that Infosyscreated value each year, and even incrementally. Based Upon the indicators as suggested by Fernández, Pablo (2000b), If EVA>0, the relevant company or its departments gain more than the weighted average value of the capital, therefore value creation occurs. The positive value of the EVA value shows an efficient use of the capital and represents an index of company value increase. A problem related to EVA is that it cannot be used as a comparison basis between the companies, as EVA depends on the company size and on the used capital. For example, a smaller but more efficient company can have a lower EVA than a bigger but less efficient company. However, this shortcoming is removed if we use the EVA/Capital indicator. In this case, the company with a higher EVA/Capital is more efficient. But EVA is a very good indicator for guiding managers' decisions. It is considered that the firm creates value as long as EVA is positive. Even if investments are made in a project which has a lower ROI than the other projects of the company, as long as EVA is positive, the firm creates value. At the same time, it is a good instrument for finding the factors which influence the value for

the shareholders. By means of a sensitivity analysis, the managers can discover those factors the company value is the most sensitive at, namely the material factors, and they can focus on the improvement of those factors.

The rate of return set by the investor (shareholder, capital owner) represents a minimum level of the profit that must be obtained from the invested capital, taking into account the investment risk of the company. Therefore, this minimum level of profitability could be obtained by an investor if he used the relevant capital in an alternate field of business, but with the same risk level.

The purpose of managing the company value based on the EVA indicator is to create for the investor a company value level at which the operational profit is higher than the average cost of the used capital, in money equivalent. In other words, the added value appears in case the company asset profitableness is higher than the average expenses, adjusted (weighted) with the capital. Thus, the meaning of using EVA is the fact that the investors should be remunerated for the undertaken risks. If this thing does not happen, then the shareholders or investors do not receive their real profit, and they do not consider any more that the investment activity of the company is profitable.

Critical Review of Economic Value Added (EVA)

Economic value added reflects the level of the used capital and the absolute gain of shareholders' profit. Therefore, EVA equals the difference between capital profitableness and capital expenses, multiplied with the amount of the invested capital. Economic value added has some obvious advantages compared to the accounting profit, which is derived from activity result evaluation. The companies which create a high economic value added must bring significant incomes to their managers. EVA is an important indicator for the managers: invest just in case the level of the profit obtained following capital investment is sufficient to recover capital related expenses. EVA encourages the managers to take safe and sure investment decisions. The use of EVA gives power and responsibility to the mangers to increase the level of this indicator, which is possible in two ways: increasing the profit or diminishing the invested capital (Fernandez, Pablo, 2002b).
A big disadvantage of the economic value added indicator is the fact that it does not reflect a forecast of the future cash flows. EVA indicator is calculated on the basis of the profit for the previous year, which makes the managers achieve investments with fast effects and does not bring a benefit to the projects in which the investment is recovered during a longer period of time.

The first disadvantage is what Peter Brewer (1999), along with his co-authorsin an article entitled *Economic Value Added(EVA): Its Uses and Limitations*, calls the problem of "size differences" (Brewer, Chandra, & Hock, 1999). Brewermentions that one can make the comparison of two companies and find that one company has a higher EVA, yet a lower ROI (Return on Investment). This indicates that although one company had more value created in terms of the EVA metric, it still would not seem to be as efficient at creating wealth as the other since it did not necessarily make more value with fewer funds (Peter Brewer (1999), As he says, "larger plant or division will tend to have a higher EVA relative to its smaller counterparts". Another potential shortfall Brewer lists is that since the calculation of EVAdepends on the financial statements based on accounting principles, accountants canchange factors to some degree to change the resulting EVA figure.The last downfall that Brewer mentions is what he calls the problem of "resultsorientation". By this he means that EVA is not a very helpful diagnostic tool to"point towards the root causes of operational inefficiencies". Therefore, heassumes that when it comes to strategizing about the next term, EVA will offer little helpand guidance toward improving value. Others believe that the opposite is true and that EVA can show managers what needs to be altered to increase value for the next fiscal term (Mäkeläinen & Roztocki, 1998).

EVA recognizes not only end results, but also the cost of the input of funds to get the results. This provides a basis for the measurement of efficiency and motivates managers to be more efficient with funds, which is usually beneficial. However, it is a well known fact that people will always want more than what they deserve, so a manager whose goal is to increase EVA should have oversight above him or her that will prevent that person from acting unethically to reach a goal. This would obviously be necessary regardless of what metric was used, but would be especially important with the use of a metric like EVA, in which there is virtually (in some cases) no limit to the manager's reward for performance.

CONCLUSION

Like all other things in life, no one solution is a perfect fit for everyone, and EVAis no exception to this rule. Some experts say that while EVA looks simple, it can be or becomecumbersomely intricate as was concluded by Shaked & Leroy (1997). Obviously, the simpler EVA canbe made by a company's finance department, the easier it will be to understand and themore it will be used. Additionally, there are no official standards pertainingto the use of EVA, so companies may apply the metric differently than other, similar companies do, giving results that do not provide for fair'comparability'. This is a major disadvantage of EVA leading to the question of universal suitability of EVA. Keeping *EVA* simple is also viewed as an important feature in successful implementation (Gressle, 1996).*EVA* has both advantages and limitations. Thus, using *EVA* only is no case a good decision. Rather, it should be usedwith other to take decisions more effectively (Chandra, 2009). EVA shows that Infosys created value each year, and even incrementally, even if more pessimistic figures are used for the capital cost. This paper concludes that economic value added has a significant relationship with the shareholders' created wealth though this concept has many limitations when it comes to comparability.

References

AlexeiSirbu ((2012).Economic Value Added (EVA) – Main Indicator in Measuring the Value Creation of the Target corporation inc., *IJRRAS* 12 (1); July, PP34-37.

Anderson, A. M., Bey, R. P., & Weaver, S. C. (2005). Economic ValueAdded® Adjustments: Much to Do About Nothing? Retrieved fromhttp://www.lehigh.edu/~incbeug/Attachments/Anderson%20EVA%204-7-05.pdf

Azad, M. (2007). RI and Shares Valuation Methods, Accounting knowledge and Research Seasonal; 33: 9-26.

Black, Andrew (1998). *In Search of Shareholder Value: Managing the Drivers of Performance*; 1st ed.; Pitman; London.

Brewer, P.C., Chandra, G., & Hock, C.A. (1999). Economic value added (EVA): Itsuses and limitations,*S.A.M. Advanced Management Journal; S*pring 1999; 64, 2.

Chandra Nikhil Shil (2009). Performance Measures: An Application, of Economic Value Added*, International Journal of Management & Science*; Vol4, No 3.

Chen, S., & Dodd, J.L.(1997). Economic Value Added (EVA): An Empirical Examination ofa New Corporate Performance Measure, *Journal of Managerial Issues*; 9, 3: 318-333.

Dillon, R.D. & Owers, J.E. (1997). EVA® as a Financial Metric: Attributes, Utilization, and Relationship to NPV." *Financial Practice and Education* (Spring/Summer). Retrieved from http://207.36.165. 114/JAF/fpess974.pdf

Fernández, Pablo (2002a). Valuation Methods and Shareholder Value Creation, San Diego, Academic Press.

Fernandez, Pablo (2002b). EVA, Economic Profit and Cash Value Added do not Measure Shareholder Value Creation; Research Paper No. 453, IESE Business School, University of Navarra, Barcelonna, Spain.

Gressle, M. (1996). Abstract of "How to Implement *EVA* and Make Share Prices Rise". *Corporate Cash Flow;* 17, PP28 - 30.

Investopedia: EVA. (2008). Calculating Invested Capital, Retrieved from http://www.investopedia.com/university/EVA/EVA3.asp

Lee, C. (996). Measuring Wealth, *the CPA Magazine*; April: 32-37.

Lehn, K., & Makhija, A.K. (1997). EVA, Accounting Profits, and CEO Turnover: An Empirical Examination, 1985-1994, *Journal of Applied Corporate Finance;* 10, 2: 90-97.

Mäkeläinen, E. & Roztocki, N. (1998). Economic Value Added (EVA) for Small Business. Retrieved from http://www.evanomics.com/download/evaspres.pdf

Rappaport, Alfred (1998). C*reating Shareholder Value*, The Free Press; New York

Shaked, I., Allen, M., & Leroy, P. (1997). Creating Value through E.V.A.- Myth or Reality, Retrieved from http://www.strategybusiness. com/press/16635507/12756

Stewart III, G. B. (1991). The Quest for Value: A Guide for Senior Managers, New York; Harper Collins.

Value Based-ABC. (2008). Activity Based Costing Method. Retrieved February 2008from http://www.valuebased management.net/methods_abc.html

Worthington, Andrew and West, Tracey (2001). Economic Value-Added: A Review of the Theoretical and Empirical Literature, *Asian Review of Accounting;*9(1):pp. 67-86.

How to cite this article:

Amarjeet K. Malhotra (2018) 'Measuring the Value Creation of Infosys through Economic Value Added (Eva)', *International Journal of Current Advanced Research,* 07(6), pp. 13835-13840. DOI: http://dx.doi.org/10.24327/ijcar.2018.13840.2485

****