

The Validity of Economic Value Added, Market Value Added and Financial Accounting Measures for Explaining Stock Returns: An Empirical Study of Listed Companies in the Colombo Stock Exchange

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This study investigates the relationship among, economic value added, traditional accounting variables and stock return. Also it concerns relative explanatory power of traditional accounting variables such as earning per share, dividend per share, price earning ratio and return on equity and economic value added with respect to the stock return. Manufacturing companies in the Colombo Stock Exchange (CSE) were selected for this study. The economic value added model with respect to stock returns is not significant in the analysis; however, the market value added model with respect to the stock return is the most significant model.

Among the traditional accounting variables, price earning ratio and return on equity are relatively important for explaining stock return. Earning per share and the dividend per share are not significant for explaining Stock return. Further it reveals that price earning ratio and return on equity appear to be more valuable than economic value added of manufacturing companies in the CSE. Several researchers and practitioners have revealed that economic value added is having more explanatory power than traditional accounting measures in driving shareholder value. However several other researchers, JHVH de Wet and Dimitris Kyriazis , Christos Anastassis revealed that economic value added does not significantly explain stock return.

According to our study, it is revealed that traditional financial accounting measures i.e. price earning ratio and return on equity are more important for determining stock return than economic value added approach. However market value added is the most significant variable for explaining stock return.

Keywords: *economic value added, market value added, earning per share, dividend per share, Price earning ratio, return on equity, stock return.*