



A Study on Economic Value Added and Market Value Based on the Infrastructure Sector of Indian Listed Companies.

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Abstract. Merger and Acquisition activity is a strategic vehicle within the organization to improve efficiency, profitability, and liquidity of the company. In recent years, the merger and Acquisition become an integral part of the organization's growth strategy. Mergers and acquisitions require proper strategic planning and execution to achieve the expected synergistic and financial gains. The purpose of the study is to investigate whether market performance and economic value addition significantly improve post-acquisition. The infrastructure sector, crucial for the development of the country economically as well as socially, the study focusses on the infrastructure sector. The sample companies are Indian listed infrastructure sector companies within the financial year 2012 – 2020. This study is divided into two parts, one related to market-based measures and the other to value-based measures. The study concludes that in the infrastructure sector, mergers and acquisitions can serve as a strategic tool as the substantial value gain is expected only if the firm-wise integration cost is managed correctly and the financial strength is increased. While the rewards may not be immediate, the long-term benefits are substantial. The infrastructure sector is poised to experience growth, stability, and value creation, which ultimately strengthens the company and creates wealth for stakeholders.

Keywords: Infrastructure, Economic value added, Merger, Acquisition, synergies

1 Introduction

Corporations worldwide are strategically shifting from organic growth strategies to inorganic strategies as part of corporate restructuring activities. Despite global economic slowdown, corporations are aggressive toward corporate restructuring to achieve economic advantage, which enhances their financial position by leveraging synergistic advantages, diversifying their product portfolios, and expanding their market presence or technological capabilities. As a result, M&A activities have become an integral part of the corporate growth strategy to enhance market presence and bolster competitive benefit because of strategic, financial and operational gain. The value of M&A deals worldwide in 2024 was approximately 2.6 trillion US dollars, with the United States leading due to favorable market conditions resulting from its dynamic

environment, hence in more than half of the deals being executed there, followed by Asia. However, due to economic uncertainty in the Chinese market, stemming from geopolitical and regulatory challenges, has led to significant growth in emerging markets such as India and Brazil, particularly in sectors like consumer goods, technology, infrastructure, and energy.

Recently, the Indian economy has brought its focus to the infrastructure sector as a catalyst for the overall economic growth and development of the country. During the COP26 summit (November 2021), India announced its commitment to achieve net-zero emissions by 2070. This goal reflects our recognition of the urgent need to focus on climate change while balancing its developmental priorities, like infrastructure. India's Infrastructure investment is below par when compared to the size and the growth of the economy. This sector is expected to play a crucial role in India's goal of achieving a USD 5-trillion economy by 2024. As per the report published by PWC on "Deal landscape infrastructure in India -2023", the union budget in 2023 raised the allotment of funding of the ministry of road, transportation and highway by 36% amounting to USD 34 billion approximately. Several government infrastructure programs and megaprojects are being executed for a variety of reasons, including stimulating economy growth and upgrading aging infrastructure. Together, these programs and megaprojects amount to meet specialization and regional expansion needs, and recent data suggest it has become increasingly relevant in the past few years. Govt's initiatives in this sector, including the Gati Shakti program, will propel investments in the sector in the medium and long term. Over the past few years, deal activity in the sector has risen due to a growing CAGR of nearly 16%. Consequently, M&A deals in construction have increased over the past few decades. The infrastructure sector received a significant boost in investment, totaling \$2.6 billion in 2022, which represents a 63% year-on-year increase from 2021. A notable example of a large deal is Edelweiss Infra-structure Fund's buyout of eight road projects from Larsen & Toubro (L&T) for \$886 million.

The popularity of M&A activities is within the organization because it improves efficiency, profitability and liquidity and increases the likelihood of the acquirer hence it improves the overall financial strength of the acquirer. Hence organization should work effectively to attain synergy goals firm with a previous acquisition relationship demonstrates significant growth in creating substantial value for stakeholders in both the long and short run, thereby creating value post-acquisition.

[1] suggested that acquired implied equity return improves post-acquisition. However, if the acquirer is facing difficulties due to higher operating costs, financial constraints, and lower investment, it could negatively affect the acquired post-acquisition performance. [2] studied that factors such as productivity, efficiency, and innovation demonstrated significant positive change, but such changes do not translate into the overall acquirer's post-acquisition financial performance [3]. In the pharmaceutical sector, there is positive and significant post-acquisition financial performance [4]. The

target financial performance improves post-acquisitions if the acquirer can manage internal financing from retained earnings and external financing to improve the financial constraints of the target [5]. Mergers and acquisitions are complex in nature, and proper strategic planning and execution are crucial to realizing the expected synergistic and financial gains.

All the recent studies majorly focus on accounting-based financial performance, where importance is given to financial ratios to understand how companies' liquidity, profitability, and solvency improve. However, the important question remains unanswered: Do acquirers create value post-acquisition? Therefore, a study is necessary to investigate whether long-term operating efficiencies and capital productivity improve post-acquisition and do so as it translates into overall value creation of the acquirer. This can be achieved through the study of EVA analysis and event-based studies on market performance, examining the investor's reaction to perceived synergy post-acquisition. The potential benefits of this study could be significant, offering new insights into post-acquisition value creation.

2 Literature Review

This study is divided into two parts: one related to market-based measures and the other to value-based measures.

2.1 Market based measures

Shareholders, as the owners of the company, while the management play a crucial role in any organizational decision, such as mergers and acquisitions, as it directly impacts the company's wealth. The resulting price movements in the share price can either lead to wealth creation or deterioration of stakeholder value. The practice of monitoring stakeholder reactions around the time of the announcement is not just crucial, but essential to gauging their perception of the company's decision and post-acquisition synergy expectations. [6] examining the reaction of stakeholders to the announcement of mergers and acquisitions of Indian manufacturing companies. According to the results, the announcement day saw a significant positive swing in price movement. According to [7], the size of the acquiring firm is not correlated to the positive cumulative abnormal return. However, the study concluded that there was a positive price movement around the day of the announcement, which could be due to 'information leakage', a situation where information about the merger or acquisition is leaked to the public before the official announcement, leading to stock price movements [8]. If the target's acquisition price results in a premium, it may lead to the target being targeted at the higher price, which will have a positive impact on the peer companies of the target.

[9] studied the measure of long-term abnormal returns and performance in banking and the non-banking companies are measured in comparison to the capital adequacy ratio. This study was conducted in the US from 2010 to 2017. The results indicate that banking companies with lower capital ratios in the long-term experience positive abnormal returns and performance impacts. In contrast, non-banking companies with higher capital adequacy ratios exhibit positive long-term abnormal returns and performance. [10] studies 20-year periods of listed infrastructure companies globally, focusing on targets or acquirers that exhibit positive cumulative abnormal performance. The results indicate that the target's cumulative abnormal return is significantly positive, whereas the acquirer's abnormal return is positive but not significant. Financial relatedness is important to demonstrate the utility post-acquisitions [11]. On the day of the deal's announcement, the new coverage plays a significant role in price sensitivity. Favorable news coverage leads to faster price movement, resulting in a significant positive price change [12]. The focus of the study is whether mergers and acquisitions have a positive effect on deal announcements. The findings suggest that, regardless of whether the deal is announced in India or China, it does not create a positive impact on the abnormal price return during the event window. [13] studied the cross-border acquisition in the fintech sector, the specific influence of the deal announcement in the long run and the short run. However, the finding relates to the previous study, which suggests that companies perform better in the short run compared to the extended run, as the long run performance return is negative following the deal announcement. According to [14], the mode of payment and the deal announcement do not affect the stock return. However, if the payment method is cash and the deal involves a large conglomerate, it has a positive impact on the abnormal return of the shareholder [15]. Mergers and acquisitions are popular in the emerging market due to the increase in market capabilities and the effectiveness of such increase, which has been translated into the positive abnormal return. However, an event-based study was done on cumulative abnormal return and the abnormal return in the selected companies, and the study suggested that the indian company showed a significant performance impact in the long run. [16] used an event-based methodology as a part of the study to investigate whether managers really know what the merger will bring post-acquisition; however, the answer to this is that managers generally tend to behave overconfidently, both in the short and long run, due to the overconfident behavior of managers, which tends to deteriorate the value. [17] examined 47 companies to compare the cumulative average return and abnormal average return in developed and emerging markets. However, it found that the magnitude of the return is higher in developed companies compared to developing companies. [18] studied Central and Eastern European countries based on 109 deals from the year 2001 to 2014, examined the short-term and the long-term performance impact of the acquisition in the deal announcement, and found that the impact of the management and the corporate governance in the long run affects the performance of the acquirer.

To summarize, the Shareholder wealth is significantly influenced by mergers and acquisitions, with market reactions at announcement reflecting expectations of value

creation or destruction. Most studies observe positive short-term abnormal returns often linked to information leakage or favourable deal factors. The long-term performance varies across sectors, governance quality, and capital structures.

2.2 Value addition Approach

In the previous section of the paper, we explored the market-based performance indicator, a metric that represents the cumulative market return of the abnormal market return. However, this section of the study is dedicated to the value-based performance indicator. In the context of corporate restructuring, this indicator plays a crucial role. When a company undergoes such a transformation, managers bear the responsibility of ensuring that their decisions lead to financial growth. This growth is not just about meeting conventional metrics like ROE, ROA, EPS, and ROCE; it should also translate into an overall improvement in the financial capital of companies, as reflected in value-based measures such as economic value added [19]. [20] identified how principal of EVA was applied to identify wealth-creating firms. weather creating firm. Economic value added is particularly significant as it effectively captures the long-term value creation from the stock market, post-merger integration, due to truly improving financial and operational outcomes, and the expected synergy outcome from the deal [21]. As per [22] EVA is more reliable when compared to the traditional financial approach to measure companies' performance and the stock return.

[23] used the modern technique of EVA to evaluate the financial performance of the acquisition; however, it was found that the profitability and the solvency have a direct correlation in improving the performance, which is statistically significant except for the liquidity ratio. [24] suggested that rather than using the traditional approach to measure EHS tick performance, EVA is explained much better than the ROA and ROE. [25] found that EVA is statistically significant with shareholder return, the higher the EVA, the more positive the impact on shareholder return, instilling hope and optimism in the potential of EVA. The traditional approach works better if the EVA shows a significant positive improvement [26]. Bid announcement returns to a partial nature, and an actual test is to differentiate the agency and the synergy view in the merger, reexamining who wins and losses after the merger [27]. As a performance indicator to measure value creation, EVA is a better indicator than the market value [28].

Thus, Value-based performance indicators, particularly Economic Value Added (EVA), are crucial for assessing whether mergers and acquisitions truly enhance long-term financial value beyond traditional metrics. Past research shows EVA to be a more reliable and statistically significant measure of shareholder wealth creation and post-merger performance.

This finding provides valuable insights into the dynamics of M&A announcements and their impact on shareholder reactions along with the long-term value creation as a performance indicator.

2.3 Objective of the study

Shareholder wealth creation is linked to the improvement in value creation for the acquirer post-acquisition, thereby bringing a positive impact on the stock price of the companies. Addressing a significant gap in the field, the first part of the study explores the shareholders' reaction to the announcement and its influence on the acquirer's share price. This unique focus on shareholder reactions offers a novel approach to understanding how shareholders interpret the synergy and their confidence in the acquirer's potential advantage from the target post-acquisition.

The study's primary objective is to understand how investors interpret the announcement of the merger as a signaling effect, a key factor in evaluating market performance. The second part of the study investigates whether the company's overall valuation experiences a positive shift in post-acquisition. Economic value-added serves as a measure to gauge the merger's impact on operational efficiency, which ideally should surpass the weighted average cost of capital.

The objective of the study is

- 1) The measure assesses the impact of the merger announcement on the stock market of the acquiring firm.
- 2) To compare the EVA of the acquiring firm before and after the acquisition.

2.4 Hypothesis of the Study

- 1) H10 Acquiring company post-acquisition market performance of the company does not improve.
- 2) H20 Acquiring company post-acquisition economic value addition of the company does not improve.

3 Data And Research methodologies

This paper focuses specifically on the infrastructure sector, selecting firms that underwent mergers and acquisitions between 2011 and 2020. Further filtering applied to include only companies that acquired more than 50% of the target's stake. Such filtering criteria were applied to understand when an acquirer sustainably acquired shares in the target, thereby improving the financial performance of the company immediately and creating value out of the acquisitions. After applying all the filter criteria to the total listed infrastructure, the sample consisted of 40 companies from the financial year 2011 – 2020. The variables, such as cumulative average return and abnormal average return, were calculated using the stock market price of the acquiring companies and the market price mentioned 256 days before the day of the

announcement. **As per the literature, the standard event window is -20 days to +20 days from the day of the announcement.** For EVA analysis, the weighted average cost of capital and EVA spread were calculated using the financial data collected from the ProQuest database. The paired t-test was used as a parametric test to compare the means of the two related units. The Wilcoxon sign ranking test is the non-parametric test that compares two related samples on a single sample to assess whether their population rank differs. Hence, a 3-year pre- and post-EVA analysis was evaluated using the T-test and signed Wilcoxon, providing practical insights into future mergers and acquisitions in the infrastructure sector.

4 Research Implication

4.1 Market Performance

The effect of merger announcements on the stock returns of acquiring firms was examined using the event study methodology, where the Average Abnormal Returns (AAR) and Cumulative Average Abnormal Returns (CAAR) were computed for an event window of -20 to +20 days around the announcement date

$$AAR_t = \frac{1}{N} \sum_{i=1}^N AR_{i,t};$$

$$CAAR_{t_1,t_2} = \sum_{t=t_1}^{t_2} AAR_t;$$

Statistical significance was tested using the t-statistics for each day as well as for cumulative event windows. When AAR was analyzed within the event window, it showed the fluctuation from positive to negative around the announcement window. It shows inconsistency. During the pre-announcement window, especially at the -16 day, the AAR was negative and significant, which suggested that such a significant result may be due to information leakage prior to the formal announcement of the deal. Behavioral pattern immediately around the announcement day, pre and post, was also studied, which was (-1, 0, and +1 day). Initial reaction was positive but insignificant across the sample.

The result of CAAR was similar to the AAR immediately around the announcement day, despite a positive reaction. However, the result is insignificant, making it difficult to confirm shareholders gain abnormal returns on the announcement of the deal. The result of the interval analysis shows a marginal improvement in the stock price around the announcement, but it is statistically insignificant. Hence, the result of interval-wise short-term to medium-term event window supports the result of AAR and CAAR; it remains positive at (-5 to 0), (-1 to +1), (0 to +5), and (+5 to +10) but is statistically insignificant.

Table 1. Analysis of ARR and CAAR for alternating interval for acquiring firm in the case of mergers

Interval	AAR	CAAR	t-statistic	p
(-20 to -15)	0.00	-0.02	-1.98	0.10
(-15 to -10)	0.00	-0.01	0.43	0.68
(-10 to -5)	0.00	-0.01	0.14	0.89
(-5 to 0)	0.00	-0.01	-0.44	0.68
(-1 to 0)	0.00	-0.01	2.23	0.27
(-1 to +1)	0.00	-0.01	2.26	0.15
(0 to +5)	0.00	-0.01	1.01	0.36
(+5 to +10)	0.00	-0.01	-0.36	0.73
(+10 to +15)	0.00	-0.02	-1.18	0.29
(+15 to +20)	0.01	0.05	1.78	0.14

Table 2. Evaluation of day wise abnormal return of the acquiring firm in case of the mergers

Day	AAR	CAAR	t-stat	p		AAR	CAAR	t-stat	P
-20	0.00	0.00	0.33	0.75	1	0.01	-0.02	1.43	0.16
-19	0.00	0.00	-1.01	0.32	2	0.00	-0.01	-0.51	0.61
-18	0.00	0.00	0.47	0.64	3	0.00	-0.02	-0.89	0.38
-17	-0.01	-0.01	-1.73	0.09	4	0.01	-0.01	1.50	0.14
-16	-0.01	-0.01	-2.14	0.04	5	0.00	-0.01	0.68	0.50
-15	-0.01	-0.02	-1.45	0.16	6	0.00	-0.01	-0.01	1.00
-14	0.00	-0.02	-0.73	0.47	7	0.00	-0.01	-0.55	0.59
-13	0.00	-0.02	-0.28	0.78	8	0.00	-0.01	-0.05	0.96
-12	0.00	-0.02	-0.59	0.56	9	0.00	-0.01	-0.45	0.66
-11	0.01	-0.01	1.68	0.10	10	0.00	-0.01	0.04	0.97
-10	0.01	-0.01	1.36	0.18	11	0.00	-0.01	0.07	0.94
-9	0.00	-0.01	0.11	0.91	12	0.00	-0.01	-0.39	0.70
-8	0.00	-0.01	-0.94	0.35	13	0.00	-0.01	0.26	0.79
-7	0.00	-0.01	-0.72	0.48	14	0.00	-0.02	-0.98	0.33
-6	0.00	-0.01	0.37	0.71	15	0.00	-0.02	-0.24	0.81
-5	0.00	-0.01	-0.35	0.73	16	0.00	-0.01	1.12	0.27
-4	-0.01	-0.02	-0.84	0.41	17	0.00	-0.02	-0.93	0.36
3	0.00	-0.02	-0.05	0.96	18	0.01	-0.01	1.32	0.20

-2	0.00	-0.02	0.24	0.81	19	0.03	0.03	0.98	0.33
-1	0.00	-0.02	0.18	0.86	20	0.03	0.05	1.81	0.08
0	0.00	-0.01	0.54	0.59					

4.2 Economic value added

The Study on the economic value added, weighted average cost of capital, and EVA spread of the acquiring firm for the period of one and three years after applying the Wilcoxon signed test and paired t-test is presented in Tables 3 & 4.

The finding showed that the EVA was not statistically significant in 1 year nor in 3 years. However, EVA spread and WACC showed marginal improvement within 3 years, suggesting that the operation and financial efficiencies can be realized in the long run, offering a promising outlook for the future. However, this doesn't translate into significant value creation immediately.

The result of the Wilcoxon signed ranking test for non-normal data after managing the outliers, a robust statistical method, indicated that the EVA and EVA spread were statistically significant, showing a superior value creation of the acquired group after the merger. This underscores the reliability of our findings.

Table 3. t-test results 1- and 3-year pre and post comparison of EVA for the acquiring firm in the case of the merger

Particular	t statistic for 1 year	p-value for 1 year	t-statistics for 3 years	p-value for 3 years
EVA	-0.378	0.707	0.599	0.553
EVA_Spread	1.660	0.105	1.955	0.058**
WACC	-0.046	0.963	-0.210	0.835

Table 4. Wilcoxon signed rank test 3-year pre and post comparison for acquiring firm in case of mergers

Particular	Z	Asymp. Sig. (2-tailed)
EVA	-1.962b	0.050**
WACC	-1.190c	0.234
EVA spread	-3.132b	0.002**

5 Conclusion

The previous studies demonstrated that the announcement of the deal is believed to elicit a positive reaction from the investor, which in turn translates into significant abnormal and cumulative returns. While in this study, the analysis found that there was a minor price fluctuation, but such a change is not substantial immediately around the day of the announcement. It suggests that investors in Indian companies do not unquestioningly believe the manager's talk, which is considered cheap due to overconfidence in the manager, who may overestimate the synergistic effect on the acquired company post-acquisition. Such effects may not materialize into a long-run improved performance matrix. Therefore, post-acquisition integration costs, operational efficiencies, and the time it takes for synergies to be realized are crucial for the acquirer to create value post-acquisition.

However, the market-based performance was an event-based performance matrix, but the economic value added is used to study the long-term impact of post-acquisitions. The result suggested that the post-acquisition economic value added does not show immediate substantial improvement, as it may take more than expected to unlock the synergy effect post-acquisition. The improvement in EVA spread and marginal decline in weighted average cost of capital reflect that if the manager has correctly identified the synergy, the operational efficiencies and the financial gain can be achieved in the long run. Mergers and acquisitions effectively enhance the economic strength of the acquiring company if long-run strategic moves are correctly identified and executed. Hence, the success of mergers and acquisitions may not translate immediately, but it does bring a successful outcome in the long run if appropriately managed.

Thus, the study concludes that in the infrastructure sector, where project cost is significantly high and returns are expected to increase over time, mergers and acquisitions can serve as a strategic tool. However, the focus should not be on short-term value gain. The substantial value gain is expected only if the firm-wide integration cost is managed correctly and the financial strength is increased. A key factor in achieving this substantial value gain is the successful realization of economies of scale. While the rewards may not be immediate, the long-term benefits are substantial. The infrastructure sector is poised to experience growth, stability, and value creation, which ultimately strengthens the company and creates wealth for stakeholders.

6 Future research directions

While this study highlights the long-term value creation potential of mergers and acquisitions in the infrastructure sector, future research could broaden the scope by incorporating cross-sector comparisons to determine whether similar patterns hold in industries with different risk profiles and capital structures. Additionally, future research can employ alternative value-based measures such as Market Value Added

(MVA) or Tobin's Q to have deeper insights into market expectations and intangible value creation. In the future, researchers can also expand the sample size and examine post-merger governance mechanisms, which can strengthen the understanding of how strategic, managerial, and sector-specific factors influence the success of mergers and acquisitions over time.

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