

A Comparative Study of EVA and Traditional Financial Indicators in Evaluating the Performance of Large Multinational Enterprises

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Abstract: As globalization enters a new era, large multinational companies have entered a period of high-quality development. Focusing on adhering to the value-oriented performance evaluation idea, people need to find a better way to meet the needs of investors, managers, employees, and other stakeholders to meet the needs of enterprise performance evaluation. Based on the dynamic evolution of economic value added (EVA), this paper constructs a theoretical analysis framework of EVA and traditional financial indicators to evaluate the performance of large multinational enterprises according to the internal logic of financial and non-financial indicators. It explains the high-quality development mechanism of enterprises jointly generated by the performance evaluation mechanism and performance incentive mechanism involving EVA and traditional financial indicators. Moreover, it explores the possibility of moving towards high-quality development goals from the perspective of international comparison and practice of the performance of large multinational enterprises. The purpose of EVA and traditional financial indicators to evaluate the performance of large multinational enterprises is to provide stakeholders with an enterprise value that meets the expected standards and continuously improve enterprise quality and stakeholder satisfaction. Therefore, the high-quality development of large multinational enterprises is achieved by strengthening the enterprise decision-making control based on the EVA quality internal cycle, constructing the interaction and coordination mechanism between EVA and the quality perception of traditional financial indicators, and establishing the evaluation system of EVA and traditional financial indicators, to promote global economic growth and truly meet the needs of stakeholders.

1. Introduction

Performance evaluation is one of the responsibilities of large multinational enterprises. Performance evaluation is a general term for measuring enterprises' operating results and value creation ability. They can be divided into financial and non-financial performance evaluations, composed of financial and non-financial indicators. Large multinational enterprises entrust third-party institutions to audit and verify performance evaluation to improve the effectiveness and objectivity of performance evaluation. Since the 1990s, economic value added (EVA) has become the key to performance evaluation. In addition, the comparison between EVA and traditional financial indicators has become a hot issue. Compared to traditional financial indicators such as profit, yield rate, or cash flow, EVA emphasizes the cost of capital, reflects economic profit, and stimulates long-term value creation. Therefore, we put forward the discussion about the performance evaluation of large multinational enterprises based on EVA. This paper provides new theoretical support and empirical analysis for the topic.

EVA originated from the modern financial management movement with the core of maximizing shareholder wealth and economic profits. Its ideas and methods are innovative, scientific, and practical. In addition, EVA is a decision-making tool for managers and investors of large multinational enterprises. From the theoretical structure, EVA pursues the maximization of shareholder value, combines the calculation method and project adjustment with traditional financial indicators, and realizes the modernization of performance evaluation. However, these are only theoretical. Today,

EVA has been widely applied and promoted worldwide. Many well-known large multinational enterprises such as Coca-Cola, IBM, Siemens, and others have adopted EVA management systems. The comprehensive promotion of EVA has rewritten the methods and standards of performance evaluation, reflecting the development trend of performance evaluation. In addition, it affects the strategy formulation, resource allocation, and risk control of large multinational enterprises and poses challenges and opportunities to their long-term competitiveness. Therefore, it is necessary to use a global perspective and strategic thinking to complete the research on the performance evaluation of large multinational enterprises based on EVA.

2. Research Background of Performance Evaluation of Large Multinational Enterprises Based on EVA

2.1 The Concept and Characteristics of EVA

EVA is a concept that has developed with modern financial management. It is imbued with the concept of value creation, emphasizes enterprises' shareholder orientation, and reflects enterprises' value management strategy since the establishment of the market economy [1]. However, when we try to use some accounting standards to construct the definition and essence of EVA, it still needs more effort.

2.2 Comparison of EVA and Traditional Financial Indicators

EVA, the abbreviation of economic value added, is the expression of the actual economic profit of the enterprise. EVA and financial indicators show the different definitions of enterprise value from the perspective of profitability, capital cost, and return on investment. Some scholars believe that EVA is the degree to which the enterprise creates value or the degree to which the enterprise's and investors' interests are aligned. It is because EVA is objective and comprehensive to some extent that it belongs to the financial science aiming at maximizing shareholder value. The theory of EVA can even be traced back to the 19th century. The main activities include adjusting research and development costs, market development costs, and business reputation. In addition, the concepts and methods of EVA are closely related to the EVA management system proposed by Stern Stewart Consulting in the early 1990s. In EVA, shareholder value has become a vital responsibility of enterprises. The main contribution of EVA theory in the late 20th century is to compare and analyze it with traditional financial indicators. Therefore, the concept of EVA initially focused on performance based on net operating profit after tax and capital cost attributes [2].

2.3 The Characteristics and Performance Evaluation Needs for Large Multinational Enterprises

Compared with traditional performance evaluation, large multinational enterprises emphasize the relationship between global vision and localized operation and have diversified characteristics. Although some scholars have questioned that overseas research and development investment may not directly relate to corporate innovation performance, most scholars advocate that overseas research investment can rationally evaluate corporate innovation performance [3]. Phene and Almeida proposed a classic influence mechanism model of overseas research and development investment, including expansion of the knowledge base and research efficiency. Since then, the model has become a standard tool for overseas investment, and the concepts of "going out," "going in," and "going up" have been developed. Scholars believe that overseas research and development investment is dynamic and a gangplank. Only when enterprises can effectively use overseas knowledge resources of overseas investment will they promote enterprise innovation performance. Therefore, enterprise innovation performance results from overseas research and development investment. In addition, scholars divided overseas investment into two models: the localization adaptation model based on market demand and the exploratory learning model based on knowledge acquisition. The former focuses on meeting the needs of local customers, and the latter focuses on acquiring advanced technical knowledge, that is, innovation. In practice, overseas research and development investment

has experienced some failures. But from a global perspective, it can enhance the competitiveness of enterprises in the global market. Subsequently, the concept of "going out," "going in," and "going up" has gradually become the consensus of research and practice of large multinational enterprises [4].

3. Research Foundation and Critical Technology of Performance Evaluation of Large Multinational Enterprises Based on EVA

3.1 EVA Calculation Method and Adjustment Items

In essence, the concept of research foundation and critical technology of performance evaluation of large multinational enterprises based on EVA focuses on measuring the value created by enterprises for shareholders. EVA is the application of economic value added in financial management. To solve the shortcomings of traditional accounting indicators, it entered the research field as an alternative model: the EVA framework. The basic ideas of the framework are as follows. First, companies should ensure that after-tax net operating profit exceeds the cost of capital. Second, set professional standards for enterprise value creation. Third, grasp the real economic profits through adjustments to accounting data. Then, the weighted average capital cost method is used to measure the opportunity cost of capital. The EVA framework reconstructs enterprise performance evaluation, focusing on enhancing the value orientation of operators and enhancing competitiveness, efficiency, sustainability, and transparency [5].

3.2 The Value Relevance and Explanatory Analysis of EVA

The value relevance and explanatory analysis of EVA is the main content of enterprise performance evaluation, which focuses on whether the enterprise has created economic profits that exceed the cost of capital. Their relationship with market value reflects enterprises' value creation ability and investors' confidence. Some elements in the development of the EVA evaluation system are gradually being formed, and EVA and various rating systems are evaluated gradually. However, from the research at home and abroad, some EVA practices remain at the theoretical stage, contrary to the logical framework and generation mechanism of EVA. Therefore, the calculation method, adjustment project, value relevance, and effectiveness of EVA occur. To sum up, EVA still has room for improvement in enterprise value evaluation. Moreover, its advantages and disadvantages need further improvement, which is an essential task of enterprise performance evaluation research.

3.3 The Influencing Factors and Optimization Strategies of EVA

From a financial point of view, the cost of capital is the primary link between EVA and the core embodiment of enterprise performance. Therefore, EVA takes capital cost as the primary generation logic. Capital structure is the main influencing factor of capital cost and the core subject of enterprise financial decision-making. At this stage, large multinational enterprises strengthen capital structure control from a global perspective. There are three primary forms: the first one is called diversified financing. It is necessary to clarify the matching between financing and investment in different markets and currencies. The second is called financial leverage management. The standardized control of capital structure is realized by formulating the optimal and target debt ratios and disclosing financial policies to investors. The third is financial process reengineering. In recent years, companies such as Apple and Microsoft have reduced idle funds and improved capital efficiency by repurchasing stocks and dividends. However, compared with developed countries, the capital structure optimization of large multinational enterprises in China needs further improvement. In general, there is still room for improvement in large multinational enterprises' EVA calculation methods and incentive mechanisms. Their performance evaluation system needs to be further improved, which is an essential task for future research [6].

4. Performance Evaluation Modeling and Application of Large Multinational Enterprises Based on EVA

4.1 Research Design and Approaches of EVA Framework

EVA aims to build a mechanism and optimize the system to make performance evaluation meet the expected standards for large multinational enterprises and is committed to improving corporate value. EVA is not a new topic; it combines capital cost and economic profit with financial logic, presents a comprehensive dimension, and enriches the technical connotation of performance evaluation. In addition, EVA gives value to the combination of capital structure and investment decision-making, financial policy and incentive mechanism, financial process, and management control. In addition, EVA performs successful practices in internationalization, standardization, and informatization, which provides a reference for large multinational enterprises. However, compared with the requirements of EVA theory and mechanism design and the requirements of large multinational enterprises at this stage, the development path of EVA still needs to be further optimized, and it needs to be more closely integrated with the strategy to maximize corporate value [7].

The research design of the EVA framework is shown in Figure 1.

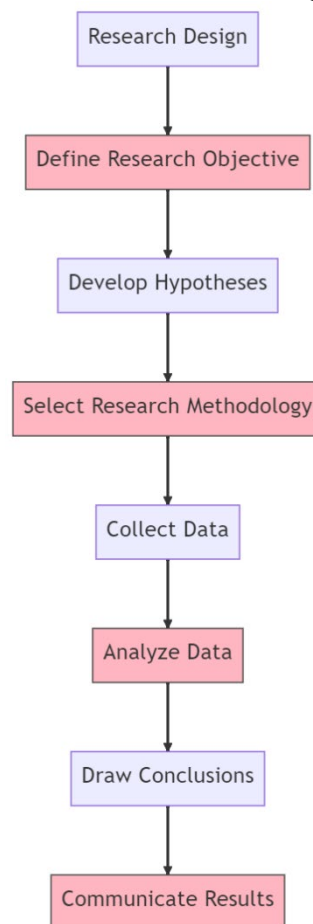


Figure 1 Research design of EVA framework

4.2 A Comparative Model of Performance Evaluation between EVA and Traditional Financial Indicators

From the perspective of financial management, traditional financial indicators did not accurately provide the performance evaluation that enterprises need. Traditional financial indicators mainly evaluate the performance of enterprises in terms of profitability, but traditional financial indicators need more relevant information and incentive mechanism considering the cost of capital. The core of the problem may be accounting standards. In accounting standards, the cost of capital is usually described as a hidden cost, which does not directly reflect the performance of enterprises. However, the cost of capital is mostly about information such as investors' expected return. Accounting

statements are scarce. Usually, the cost of capital is difficult to obtain or measure. Information asymmetry and imperfect market directly lead to the measurement obstacles of capital cost. To sum up, there is still room for improvement in traditional financial indicators reflecting enterprise value creation. Its incentive effect needs to be further improved, which is an essential task of financial management.

The development of EVA aims to build a mechanism and optimization system to provide stakeholders with an enterprise value that meets the expected standards. People are committed to continuously improving the quality of enterprise value. Although EVA is not a new topic, EVA combines various elements such as capital cost and economic profit with financial logic, presents a comprehensive dimension of enterprise performance, and enriches the technical connotation of performance evaluation. In addition, it gives EVA and traditional financial indicators, EVA and non-financial indicators, EVA and information technology combined with the value of significance. EVA has successful practical exploration in large multinational enterprises, high-tech enterprises, and state-owned enterprises, which provides experience for performance evaluation. However, compared with the requirements of EVA's theoretical construction and mechanism design and the requirements of globalization and high-quality development at the current stage, EVA's development path still needs to be further optimized, which needs more to optimize and complete the creation of corporate value.

4.3 Performance Evaluation Analysis of EVA and Traditional Financial Indicators

Indeed, traditional financial indicators cannot avoid the hidden cost as accounting standards in reflecting the value creation of enterprises. In the accounting standards mechanism, capital cost is a standard and effective financial tool that plays a role in enterprise performance evaluation. In addition, it makes the cost of capital a financial concept, not only an accounting concept. Therefore, the traditional financial indicators based on “profitability” have become the performance evaluation mechanism of enterprises. The practical deduction of traditional financial indicators is generally an evaluation path based on accounting standards, though this path brings market attempts. Traditional financial indicators are closely connected with profitability, from yield rate to net profit. Companies should focus on improving profitability to meet market requirements. However, when the cost of capital is neglected, it brings a dilemma: value destruction. In summary, traditional financial indicators still have room for improvement in reflecting enterprise value creation. Their incentive effects need to be further improved, which is an essential task of financial management.

5. Conclusion

Globalization has entered a new era, which poses challenges and requirements for large multinational enterprises. Performance evaluation is a symbol of enterprise value and is essential for enterprises' high-quality development. Moreover, performance evaluation aligns with the urgent need to improve stakeholder satisfaction and maintain global economic growth, reflecting the inherent requirements of value orientation. Under the guidance of this concept, EVA and traditional financial indicators evaluate the performance of large multinational enterprises. Researchers construct a theoretical analysis framework and a practical mechanism that meets the expected standards. In recent years, modern information technologies such as big data and cloud computing have promoted the innovation of performance evaluation. Through data-driven empowering enterprise decision-making control and improving performance evaluation's accuracy and scientific nature, its value fits the internal logic with EVA as the core. Therefore, information technology provides a new path for EVA and traditional financial indicators in evaluating the performance of large multinational enterprises. To sum up, EVA and traditional financial indicators evaluate the sustainable improvement and development of multinational enterprise performance, which helps to reflect enterprise value creation and improve stakeholder satisfaction.

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