

PERFORMANCE MEASURES AND STOCK RETURN: EVIDENCE FROM BEVERAGE, FOOD AND TOBACCO SECTOR

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A performance measure is a numeric description of a firm's work and the results of its activities which have done, and it is based on data, and tells a story about whether an agency or activity is achieving its objectives and if progress is being made toward attaining policy or organisational goals. Several researchers have argued that Economic Value Added (EVA) is a superior performance measure compared to the traditional accounting performance measures in deriving the stock market returns while some other researchers reject this argument and confirm that traditional accounting performance measures are more relevant and provide more information on stock returns than EVA. This study endeavoured to explore the explanatory power of EVA compared to three traditional accounting performance measures, Return on Equity (ROE), Return on Asset (ROA) and Earnings Per Share (EPS) in explaining the stock market returns of the food, beverage and tobacco sector in the Colombo Stock Exchange (CSE). The sample period of the study spans for 6 years from 2007 to 2012. The relevant data were collected from the CSE data library and the annual reports of the sample companies. Correlation coefficient and regression analysis techniques were used for statistical analysis.

The study revealed that EPS and ROE have a relatively high explanatory ability of stock return variations while EVA is not a significance measure to evaluate the variations of stock return and the ROA is the least performing traditional performance measure in explaining the variations of stock return. Further it revealed that ROA and ROE are highly correlated with each other. The findings of this study reject the argument of the superiority of EVA over traditional performance measures and recommend using ROE and EPS in making investment decisions in the food, beverage and tobacco sector companies in Sri Lanka.

Keywords: EPS, EVA, Performance measures, ROA, ROE