

IN SEARCH OF A CONTEMPORARY MODEL FOR SHAREHOLDER VALUE CREATION IN INDIAN MARKETS: A CONCEPTUAL REVIEW

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ABSTRACT

India witnessed tremendous increase in the number of joint stock companies since liberalisation in the early 1990s which was a positive sign for India's developing economy. However the challenge that arose was that a fund deficient country like India faced tremendous competition for capital which was an area of grave concern. One of the most important goals of companies and profit making organizations is increasing shareholders wealth in long term. There are a host of internal and external factors which affect shareholder value creation. Similarly strategies companies are using to create value for their shareholders have been changing in recent years. Academic literature has been constantly debating on issues relating to shareholder value creation and its maximisation in the long run, wherein every researcher emphasises on various value drivers for creating value for the ultimate owners of the company. The objective of this concept paper is to find out the research problem, research gap, different outcomes and to arrive at a conclusion based on previous research. The study concludes that traditional accounting measures are lacking in finding the true value of the shareholder wealth as well as corporate value. EVA as a measuring tool for shareholder value creation suffers from the inherent limitation of using historical accounting data. Pablo Fernandez Model whereby Shareholder Value is measured as an excess of Shareholder Return over the Cost of Equity needs to be researched further as it is based on market value rather than historic data. Emphasis needsto also be laid on studying how shareholder value is impacted by the internal financial soundness of the company as well as other external factors which the researcher proposes to bring out through his study.

Keywords: Liberalisation, Corporate Value, Economic Value Added, Wealth Maximization.

INTRODUCTION

In today's globalised business environment, companies continuously seek ways to achieve substantial business success. Whether this success is measured in terms of growth, earnings, Return on Investment, market share or similar other matrices, companies are continuously looking for opportunities to progress their business performance and thereby increase shareholder value.

The primary objective of each and every organisation is to maximize their profit and shareholder's wealth. Therefore, Shareholder Value Creation has become a mantra intoned with solemnity at every annual general meeting and in every annual report. In the wake of increasing global competition, the only way for companies to survive is by focusing on efforts to create shareholder value in order to survive the intense competition. In the viewpoint of this, it has become of utmost importance for companies to measure the value they create for their shareholders over the years. Keeping a continuous track of the value created year-by-year enables companies to evaluate the impact of their past decisions as well as make new decisions that will improve shareholder value in the long run.

The whole corporate world throughout the globe has been busy in fulfilling their goal of wealth creation for the company's shareholders. Any negligence by any of the company in this area may threaten its mere existence in the marketplace. Hence, all the companies in the domestic sector as well as in the international sector are striving hard to accomplish this goal in their own ways. After the opening up of the economy, liberalisation of trade and commerce and cross border flow of funds and technology, the focus on corporate valuation has gained