

Evaluating the Relationship of Accounting Variables, Value-Based Management Variables and Shareholder Returns: An Empirical Approach

Oji Okpusa Oke¹, Kola Benson Ajeigbe²

¹Department of Management Accounting, Faculty of Business and Management Sciences, Cape Peninsula University of Technology, Cape Town, South Africa

²Department of Management Accounting, Faculty of Management and Finance, Walter Sisulu, University, South Africa

Abstract

This study assesses the Accounting-Based variables and Value-Based Management variables and how it influences firm value and performance using data retrieved from the published financial statement of companies listed on the Johannesburg Stock Exchange (JSE). Data covering 356 industries were purposively sampled to arrive at 61 companies spanning from 2011-2020. The study employed the multivariate system, the Standard Granger causality test and the Panel Vector Autoregressive (PVAR) Granger causality to determine the dynamism among the variables. The explanatory variables employed are return on assets, return on equity, and earnings per share representing accounting variables while the companies' value-based management variables include economic value added, market value added, economic value-added momentum and refined economic value added as well as shareholder returns as the dependent variable. The findings demonstrated a substantial positive short run and long run relationship between shareholder return and the accounting variables as well as the value-based management variables and shareholders returns. This implies that combinations of both the accounting variables and value-based management variables are highly germane in the determination of both company value and performance in the real-life for the purpose of continuity, sustainability and value maximisation of companies. Therefore, managers are encouraged to assess their companies' performance using both variables to provide both incremental and relative information for managers' and investors' decision-making rather than relying on one model alone. This study provides good insight for companies, managements, directors, shareholders, investors and other stakeholders to aid them in their decision-making processes.

Key words: Economic Value Added, Return on Asset, Company Performance, Firm Value, Return on Equity