



Company performance assessment techniques

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Abstract :

This paper is part of the evaluation of the company using performance indicators. Several techniques are presented, the basis of which is the very nature of these indicators, in particular economic, accounting and stock market. Performance evaluation supports the propagation of the culture of value creation and the alignment of the company's strategy. It guarantees a global vision, and precise estimation of the value of the company.

Key Words: Performance measurement, Evaluation indicators, Nature of indicators, Valuable creation, Company valuation.

JEL Classification : L25

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Introduction

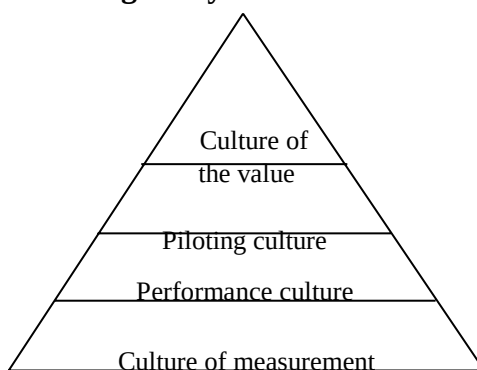
The evaluation of the company requires collecting all the information concerning its internal and external environment (Eccles, 1991). It is essential to carry out a diagnosis of the activities of the company and of the foreseeable evolution of this one. According to Drucker (1995), managers need information that allows them to make informed judgments. This information relates to markets, customers and consumers, current technologies, the international financial situation and developments in the world economy. A good indicator ensures the convergence of individual interests with the objectives of the organization and facilitates comparisons between divisions. The assessment of the company focuses on the real know-how of the company (innovation, research and development) and its competitive advantage in its long-term market. The value attributed to the company allows certain figures to be put into perspective during merger or acquisition operations. It informs the decision-maker of his state of health, by displaying essential statistical information, in order to manage the company, taking into account all the stakeholders.¹



I. Definition of business valuation

The valuation of the company is an important step in order to know its value. Company valuation can be defined as an attempt to measure with quantitative methods, a value made up of objective and subjective elements. Enterprise value corresponds to the fundamental valuation of the activity regardless of its financial situation. Treasury. The evaluation of the company is done through performance indicators. According to Lorino (2003), indicators are constructed by the actor in relation to the objectives he pursues. They are carried out on data available by the actors of the organization who give judgments on organizational performance (Morin et al, 2001). The designed indicators must be compared with the judgment criteria, past performance and industry standards in order to validate them. Value analysis is based on a measurement mechanism which, developed at the strategic and operational levels, makes it possible to assess the contribution of activities to the creation of value. It embodies a lever allowing to support the strategic thinking of the company. The following figure illustrates this positioning.

Fig. 1: Pyramid of value



II. Construction of evaluation indicators

The construction of business evaluation indicators is one of the major challenges facing a business. According to Neely (2002), the design of these indicators takes the form of a process. Lowe and Jones (2004) have shown that the formulation of evaluation indicators takes the form of an emergent and iterative decision-making process.² The construction of evaluation indicators generally includes the following steps:

Step 1. Choice of variables that reflect financial goals. What is the best expression of the division's financial performance: operating profit, net profit, rate of return on assets or turnover?...

Step 2 Define the parameters of the variables of step 1. Are assets represented by total assets or by net assets? ...

Steps 3. Choosing a method for evaluating the parameters of the variables in step 1. Are the assets valued at historical cost, current market value or present value? ...



Performance indicators must be constructed contingent on the choice of modes of action (Kaplan and Norton, 1996). Indeed, it is necessary to calibrate the indicators selected by setting the benchmarks for comparison and to clarify the meaning and the limits of interpretation of these indicators. The construction and calibration of evaluation indicators constitute an essential act and a prerequisite for any activity management. Finally, the subjective nature of evaluation indicators, based on interpretations by the actors, is inherent in human action and increases with the complexity of this action.

III. Nature of the indicators

The different value creation models use the *cost of capital* invested (CMPC) as a benchmark to measure the performance of the company.³ To create value, we must recognize that capital has a cost. Equity is not a free resource and its holders demand a high rate of return. If this capital is not correctly remunerated, it will be reallocated to other sectors likely to provide it with a higher return. It is by using this benchmark that the recurring enrichment of the company is calculated. Locked-in capital is that of donors, shareholders and lenders, who are remunerated on the basis of the risks taken (Patienté, 2006). The place taken by the theme of *valuable creation* has led to the development of indicators to measure it.⁴ These indicators can be economic, accounting and stock market.

1. Economic indicators

The profit to be taken into account to know if a company creates value is not the *net profit* where the *accounting profit*. Indeed, even if the accounting profit takes into account most of the costs borne by the company (purchases, salaries, financial expenses, taxes, etc.), It does not take into account the *cost of capital*. Profit is calculated as if the funds provided by shareholders (capital providers) were free and could be satisfied with any level of remuneration. However, shareholders only gain from investing in the company if the resulting profitability is better than offsetting the opportunity cost of capital. Hence the notion of economic profit, that is, the profit that remains after all costs have been covered, including the cost of capital. The economic profit is therefore zero when *return on invested capital* (ROIC) is equal to *cost of capital*. It becomes positive when profitability exceeds the cost of capital, and negative in the opposite case.⁵

$$\text{Economic profit} = \text{Capital invested} * (\text{ROIC} - \text{WACC})$$

The *cost of capital* Where *weighted average cost of capital* (WACC), denoted k , corresponds to the sum of two costs weighted in market value, shareholders (CP) and borrowed capital (D). This average also takes into account the fact that interest on loans is tax deductible.

$$k = k_{vs} (CP / CP + D) + k_d(1-T) * (D / CP + D)$$

k_{vs} (the cost of own funds); k_d (the cost of financial debts); T (the average tax rate).

The company only creates value if its economic profit is positive.⁶ The *value of a company* is the sum of its *cash flows* future discounted at the cost of capital, which is mathematically equal to the sum of investments and future economic profits discounted at the cost of capital.⁷ Discounting has the effect of evaluating the income



and expenses associated with a project as if they had all been received or paid on the same date. Discounting applies to cash flows and in no case to operating income and expenses recorded by conventional accounting. The interest underlying the discount method depends on the date of receipt of a receivable or payment of a debt. The principle of independence of financial years and the practice of calculated charges have nothing to do with discounting (Horngren and Bhimani, 2009).⁸

1.1. Actual net value

Net present value (VAN) translates the *creation or destruction of value* released by the allocation of company resources. Value creation means that investors anticipate the existence of a certain rent over a certain period of time, the present value of which allows the economic assets of the company to be worth more than its book amount. *The net present value of a financial security is the difference between the present value of that security and its market value.* For the investor, it represents the value of the cash flows linked to the investment, discounted at the rate of return required by the market, taking into account the risk of this investment. It therefore represents the amount of value creation anticipated on the investment. Just as for the choice of the allocation of resources, for the choice of a source of financing, it is necessary to refuse to use the accounting cost, but to determine the value of the financing document issued and to deduce there from the required rate of return. . An investment can be undertaken as soon as its *actual net value* is positive, since it will normally create value. The *actual net value* will be retained, at *internal rate of profitability* (IRP)⁹ when it comes to choosing between two mutually exclusive investments. This method relates to *cash flow*¹⁰ takes into account the time value of money (Annex).¹¹

$$ANV = 0 = \sum_{p=1}^N (FT_p / (1 + IRR)_p)$$

FT_p : amount of the p-th cash flow

P : the date on which the FT_p is cashed,

N: the number of FT (excluding investment),

I: initial investment (at date 0)

IRR: internal rate of return sought (discount rate or the weighted average cost of capital, WACC).

A current adjusted net value, substantially equal to the *actual net value* traditional, is broken down into *basic net present value* and in *net present value of financing*. The first measures the value created by the investment project under the assumption of full equity financing. The second measures the additional value resulting from mixed equity financing and debt or leasing. The *actual net value* remains a predictive assessment tool based on information that remains difficult to predict, in particular the Gross operating surplus. Indeed, it is necessary to be able to forecast the sales and the expenses related to the project and especially the discount rate. With the *actual net value*, it is not possible to calculate the value creation for each year.¹²

1.2. Economic Value Added

The added economic value (Economic Value Added, EVA), was developed and marketed by the American consulting firm Stern & Stewart.¹³ This is an excellent indicator for management decisions and performance monitoring. It consists in identifying a level of result, from which value is created, while reflecting the impact



of the actions of the leaders. Its interest is to allow the remuneration of directors based on the profits generated while taking into account the importance of the capital invested to obtain the results in question.¹⁴ It is a tool for measuring value creation used to:

- Better invest (at lower risk);
- Define the objectives of the managers of the responsibility centers;
- Manage communication with investors and distribute bonuses.

To improve the EVA, managers need to make more profit with the same capital. EVA measures enrichment over a period of time and takes into account the cost of debt and equity (Otley, 1999). It measures the economic rate of return in excess of the weighted average cost. This difference is multiplied by the book amount of the economic asset at the beginning of the period for the value creation of the period.

$$EVA = \text{Economic asset} * (Re - WACC)$$

Re: the after-tax accounting economic rate of return (ROI)

$$EVA = [RNE * (1 - t)] - [CE * CMPC]$$

RNE: Restated net operating income, t: tax rate

CE: Capital employed (equity + issue premiums in cumulative gross value + provisions and quasi-equity + financial debts net of cash receivables).

To improve the *added economic value* (EVA), leaders need to make more profit with the same capital, employ less capital, or use the capital for more profitable projects.

1.3. Cash value added

The *added value of Treasury* (Cash Value Added, CVA) introduces the concepts of *valuable creation* and of *cash flow*. It has the advantage of measuring the performance of the company in terms of the additional cash generated over and above the cash expected by investors, and no longer only in terms of the additional income generated by the company.

$$CVA = FTOperational_t - WACC_t * Active Economic_{t-1}$$

$$Operational FT (Operational Cash Flow) = ROP \text{ after tax} + DAP - Maintenance \text{ invest}$$

A business creates value when the operating profit for the year exceeds the cost of capital employed. The updating of the creation or destruction of values during successive financial years makes it possible to go from the book value of the capital employed to their market value.

2. Accounting nature indicators

Regarding accounting indicators, the company communicated, until the mid-eighties mainly, on the *net profit* Where *earnings per share*, eminent parameters of accounting but also eminently subject to manipulation. But a second generation of accounting indicators appeared when the reasoning passed in terms of *profitability*. In this sense, we can consider three indicators of value creation, namely the *earnings per share*, the *accounting rates of return* and the *equity per share*.

2.1. Earnings per share

The *earnings per share* (BPA)¹⁵ are the company's net profit divided by the number of shares that make up its capital. It is one of the valuation parameters of an action



and it allows an assessment of the performance of the company. The *earnings per share* (BPA) reflect the theoretical enrichment of a shareholder. Its use is based on the following beliefs :

- The *earnings per share* takes into account the cost of capital and therefore the risk;
- Accounting data has an influence on the value of the company;
- Any financial decision that increases the *earnings per share* will grow in value.

It is possible to assimilate the growth of *earnings per share* and *valuable creation*. Indeed, earnings per share become a relevant indicator of value creation if the following conditions are met :

- The risk of the economic asset must be the same from one financial year to the next, or before and after an operation (merger, capital increase, investment, etc.);
- The growth rate of the results is the same before and after a given operation;
- The financial structure of the company must be the same from one year to the next, or before and after a given transaction.

In addition, the *earnings per share* is used to determine the *Price Earning Ratio* (PER) called on *profit capitalization coefficient*. This is calculated as follows:

$$PER = \text{share value} / EPS$$

The *Price Earning Ratio* (PER) provides a measure of the cost of a security. This aggregate indicates how many times the stock exchange agrees to pay the profit. In other words, it allows you to calculate and assess the valuation of a company by comparing price and profitability. It relates the value of the business to its bottom line. Overall, we then have:

$$PER = \text{market capitalization} / \text{net income}$$

We are talking about *Ratio prospective Price Earning* when using the estimate of *net earnings per share* the current exercise to calculate it, and *Historical Price Earning Ratio* when we report the last *net earnings per share* published at today's share value.

2.2. Accounting amount of equity

The *carrying amount of equity* where the *Price to Book Ratio* (PBR) is the coefficient measuring the ratio between the market value of equity (market capitalization) and its book value.¹⁶ It is calculated by dividing the market capitalization (the share price at a time t multiplied by the number of securities) by its net assets.

$$ACB = \text{market value of equity} / \text{book value of equity}$$

$$ACB = (\text{Price} \times \text{number of securities}) / \text{Net assets}$$

The *Price to Book* (PBR) makes it possible to compare the valuation of the company by the market with its accounting valuation. It is a way of appreciating how management has managed a shareholder money unit (creating value (PBR > 1) or destroying it (PBR < 1)).

2.3 Equity

There is no single definition of equity. This concept can take several definitions and has a different meaning depending on the analyzes and accounting standards used.



In general, shareholders' equity includes starting capital, the reserve (corresponding to the profits that have not been redistributed as a dividend), retained earnings and the result for the year, as follows:¹⁷

$$\text{Total Equity} = \text{Share capital} + \text{Reserves} + \text{Retained earnings} + \text{Profit}$$

It should be noted that after the appropriation of results and the distribution of dividends, shareholders' equity is reduced by the sums distributed to shareholders. The *clear situation* is the sum of share capital, reserves and retained earnings, constituting a more restrictive definition of the carrying value of the company.¹⁸

$$\text{Equity or equity or net assets} = \text{shareholder's wealth}$$

Equity per share give an image of the shareholder's assets. They represent the accounting estimate of the value of a share. The importance of shareholders' equity in total resources, in relation to debts, makes it possible to measure the financial soundness of the company and the level of its independence vis-à-vis creditors. When the business experiences losses, the retained earnings become subtractive and decrease equity. If the amount of equity becomes much lower than the share capital, the shareholders will have to quickly rectify the situation. On the contrary, in successful or long-established companies, the amount of equity capital may be out of proportion with social capital, a concept that is more legal than financial. For the financier, the amount of share capital is irrelevant compared to the amount of equity. The composition of shareholders' equity may be greater because the profit reserve remains reversible. Dividends can in fact be paid to shareholders in the absence of profit for the period, by charging these dividends to historical results placed in reserves or carried forward.

2.4. Accounting rate of return

The accounting rate of return is the ratio between the increase in wealth (the result) and the capital invested. A distinction is made between accounting profitability and equity, called financial profitability (*Return on equity*, ROE) and the accounting profitability of the economic asset, called the economic profitability (*Return on capital employed*, ROCE or *Return on Assets*, ROA). The difference between them comes from the leverage effect of the debt.

Profitability represents the evaluation of the performance of the resources invested either by providers of capital or other holders of the liabilities of the company. It takes the form of a rate (a financial or economic ratio) indicating the ratio between a result obtained and the capital resources implemented to obtain it. It is therefore the valuation tool favored by financial analysis. However, the profitability analysis is not a tool that can be used directly (from operating income or net income) to evaluate companies because it is biased by the time lags of the company (Due to payment deadlines for example). Only cash flows can provide a reliable assessment of the profitability necessary for financial analysis (Horngren and Bhimani, 2009).

The rate of return on equity (financial return)

Traditionally, the creation of shareholder value is measured by the *return on equity*.¹⁹ Defined as the accounting result divided by accounting equity, it expresses the capacity of the capital invested to generate a certain profit.



$$R_f = \text{net income} / \text{equity}$$

The rate of economic assets (Economic Profitability)

Economic profitability measures the performance of the company with the use of all of its capital employed.²⁰ It determines the income that the company manages to generate according to its resources. Economic profitability is the ratio between gross operating surplus (EBITDA) and invested capital (CI). It corresponds to the secretion of wealth achieved by the productive potential of the company.

$$Re = EBE / CI = RE * (1-T) / CP + Debts$$

RE: Operating Result;

T: Taxes; CP: Equity

When the economic profitability is higher than the cost of the borrowed capital (that is to say the real interest rates), it is in the entrepreneur's interest to go into debt to invest. The company can improve its economic profitability either, at constant sales volume, by increasing the margin made on each product, or at constant unit margin, by increasing the amount of sales. Or combine these two avenues to improve economic profitability.

In the case of economic profitability, we compare the Gross Operating Surplus (EBITDA) to all the capital invested (including capital borrowed from the banking system or on the financial markets), while in the case of financial profitability, we only compare the EBITDA to the capital contributed or kept in the company. Financial profitability is of more interest to the partners because it is the profitability of the capital that they have placed in the company. Economic profitability is of greater interest to financial investors such as banks. If recourse to debt can make it possible to obtain a return on equity greater than economic profitability, it also poses a greater financial risk for shareholders, whose demand for profitability increases accordingly.

The leverage effect of debt is the difference between economic profitability and financial profitability.

3. Stock market indicators

The amount of equity gives a simple accounting indication. Stock market investors update this indication by setting a market value to equity based on the company's profitability outlook. This is the market value of the business. Indicators of a stock market nature in particular, the creation of stock market value (Market Value Added, MVA) and the total shareholder return (TSR) are strongly influenced by the stock market situation, and measure what the management of the firm is capable of. to create or destroy from the invested capital.

3.1. Market value creation

The *stock market value creation* where the *market value added* (MVA) is defined as the difference between the market value of the company (market capitalization) and the capital that is immobilized (capital and debts).²¹ A positive MVA indicates that the market believes that the company will later generate returns above its cost of capital (goodwill). A negative MVA corresponds to the case where the market anticipates that the company will generate returns lower than its cost of capital



(Badwill). The *market value added* (MVA) quantifies the total value that the business can create over this period. This indicator gives an order of magnitude the capital gain that shareholders would generate from the sale of the company after deduction of the amounts they have invested.

MVA = Market value - Accounting amount capital of the economic asset

It is the best external measure of executive performance, because it indicates how the market judges the efficiency with which the executives of a company have used the resources placed under their control. However, in most cases, in the absence of information, the *stock market value creation* (MVA) is approximated by the difference between market capitalization and *the carrying amount of equity* (Price to book ratio).

MVA = Market value - book amount of equity

The *stock market value creation* (MVA) is an extrapolation obtained by discounting the flows of *added economic value* (*Economic Value Added*, EVA) over a visibility period. Since EVA is calculated on an annual basis, the value added market. The sequence of future flowers of the EVA makes it possible to determine, in a second step, the MVA by discounting them at the weighted average cost of capital.

$$MVA = \sum_{t=1}^n (EVA_t / (1 + CMPC)^t)$$

For there to be value creation, the return on investment (ROI) must be greater than their cost. Otherwise, even if there is growth in operating income, the company destroys value. It is not growth in itself that is a source of wealth, but the ability to generate operating income above the cost of all capital employed.

3.2. Share rate of return

Developed by the Boston Consulting Group (BCG), the share's rate of return (*Total Shareholder Return*, TSR) represents the rate of remuneration of shareholders. It measures the change in the market value of a business.²² Shareholders have access to two types of earnings. On the one hand, the dividends paid to them by the company which result from recent profits, and on the other hand the capital gains, that is to say the capital gains which result from the increase in the value of shares they hold.²³ The sum of dividends and capital gains is called total shareholder compensation or TRS (*total Return to Shareholders*). To maximize shareholders' wealth, therefore, the TRS must be maximized. The (*Total Shareholder Return*, TSR) is measured by the change in the company's capitalization over a year, to which is added the amount of dividends paid, expressed as a percentage of capitalization at the start of the period. This is an actuarial rate of return which must be calculated over a long enough period in order to smooth the impact of erratic stock market fluctuations (Olsen et al, 2004). The TSR can be increased by improving the fundamental value which represents the present value of the future cash flows of the project, based on its margin, productivity, growth, and cost of capital. You can also improve TSR by distributing dividends to shareholders. Assuming that there has been no issue or redemption of securities, the TSR can be calculated as follows:

$$TSR = (Course\ end\ of\ period - Course\ start\ of\ period + Dividends) / Price\ start\ of\ period$$



The evaluation takes into account the success of the company and its performance becomes multi-criteria. The needs in terms of value analysis are complex and integrate several dimensions, including the investment axis and the time axis. The first is confronted with the plurality of different natures of gains and the plurality of beneficiaries of the investment. The time axis must represent an expected horizon for the investment to have a full value creation effect. Thus, the construction of indicators for the evaluation of the company is, from now on, one of the great challenges facing a company. The value analysis must be based on the use of a measurement method which necessarily includes the definition of the valuation perimeter. In order to make the company's value estimate more comprehensive and precise, estimating the value of the company, the article details the process of qualification by value points.

Tab.1 : Broad categories of evaluation methods

Assessment method	Valuation by	Assessment is determined by examining:
Heritage method	Heritage value Adjusted net assets Goodwill	Assets owned by the company: Fixed assets (premises, equipment), inventories, intangible assets (brands, reputation)
Profitability value	DCF method Stock market value Yield value Productivity value EBIT method	Results generated by the company: net profit, dividends, cash flow, EBIT, forecast cash flow
Comparable method	Scale of goodwill	Comparisons with unlisted companies that have been the subject of a recent known transaction Comparisons with listed companies with a similar activity

Heritage method: The patrimonial method is based on the conception that the value of a company is all of its net assets, in other words, total assets minus debts. It is by careful examination of the annual accounts (the company's balance sheet) that the valuation operation is carried out.

Profitability value: The profitability value is based on the company's ability to generate results: net profit, dividends, cash flow, EBIT (Earning Before Interest and Taxes), forecast cash flows.

Comparable method: The comparables method, or the analogy method, compares the company studied with others presenting similarities (sector of activity) for which a market value is known (stock market value if the comparable company is listed on



the stock exchange or transaction if the company is not listed but has been the subject of a recent transaction).

Adjusted net assets: Calculate the real market value of fixed assets, for example, to know the value of the business.

$$\text{Corrected net assets} = \text{corrected total assets} - \text{debts}$$

Goodwill: The value of the company often exceeds the value of the adjusted net assets because it has not been taken into account difficult to estimate elements called goodwill or goodwill. This method is based on the added value of the company generated by its position on the market that the company adds (its notoriety, its brands, its technological and innovation level, its know-how, the quality of its customers, the quality of its teams, its location, etc.). The calculation of goodwill, or goodwill, depends on the profitability of the business. If the profitability of the company exceeds the profitability of a current investment with risk (excess profit obtained), we will say that there is goodwill. Otherwise, there will be badwill.

$$\text{Asset value with Goodwill} = \text{Adjusted net assets} + \text{Goodwill value}$$

DCF method : This is the approach by *net cash flow*, Where *discounted cash flows*. It is an evaluation method, which rather than relying on the history of the company, will focus on its future results. The acquisition of a business therefore appears to be a special case of investment choice. The value of the company will then be equal to the sum of future cash flows generated by the company discounted at the required rate of return.

$$Ve = V \text{ Economic asset} - V \text{ Net Financial Debt}$$

In the absence of a precise forecast of annual profits, this formula can be used as a simple first approach to the total value of a company based on its annual cash flow and its predictable growth rate. Let us therefore remember that future profit, growth and the cost of capital are the three main determinants of a company's value.

Scale of business assets: The elements that can be included in a goodwill fall into two categories, intangible assets (customers, goodwill, brand and trade name, brands, patents, software) and tangible assets (goods, materials).

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¹ Freeman defines stakeholders or *stakeholders* like any group or individual who can influence or be influenced by the activity of the company. There are two groups of stakeholders: stakeholders *contractual* which concern the actors in direct relation with the company (customers, suppliers, employees, shareholders) and stakeholders *diffuse* which are located around the company but without having a direct impact (local communities, public bodies, NGOs, etc.).

² Economic Value Added (EVA) is a registered trademark, as have a number of management concepts in recent years. As such, EVA has created value... for the firm that owns the brand.

³ Cost of capital, or Weighted average cost of capital, (WACC) or Weighted Average Cost of Capital (WACC).

⁴ Some companies take advantage of the vagueness and lack of standardization of calculations to choose the indicator that best serves their interests at the moment, even if it means changing it the following year.

⁵ ROIC (ROI): Return On Invested Capital = Result / Invested Capital.

⁶ The growth of future economic profits plays a fundamental role in the creation of value. The more this growth is perceived as strong, the more shareholders will be enticed by the idea of investing in the company. The growth that interests shareholders is not necessarily that of company size or turnover if it leads to the destruction of value and does not increase profit economic. It is possible that the margins are lower in future activities than in present activities (decrease in ROIC) and that the risk is higher (increase in WACC), which can lead to a negative economic profit.

⁷ Financiers have developed increasingly sophisticated techniques for determining the value of companies. The methods became relatively complex and many mathematical formulas appeared. However, there are three main methods that can be identified. Each of them takes into account various indicators deemed relevant and presented in the Appendix.

⁸ In accounting, depreciation charges are deductible charges for the calculation of the result, they should not be deducted during discount calculations, because they do not involve any expenditure.

⁹ The internal rate of return (IRR) is a discount rate at which the present value of a project's revenue streams equals the present value of that project's expenditure stream. In other words, the IRR is the discount rate for which the NPV of the project is equal to zero. An investment project will generally only be selected if its foreseeable IRR is sufficiently higher than the bank rate to take into account in particular the risk premium specific to the type of project. Indeed if the IRR is greater than the capital discount rate (cost of capital), the net present value of the project is positive and the project is profitable.



¹⁰ The cash flow is the Gross Operating Surplus (EBITDA) corrected for the variation in the operating working capital requirement (WCR) and corporate tax.

¹¹ Annex: The main categories of evaluation methods.

¹² *Economic Value Added* allows such monitoring.

¹³ In fact, Economic Value Added (EVA) is an old concept popularized by the firm Stern & Stewart. Indeed, the concept is not new and corresponds to that of surplus profit developed by the economist Alfred Marshall at the end of the 19^e century. It had also been operationalized at General Electric during the sixties.

¹⁴ When executive compensation depends on the EVA, their propensity to consume capital is hampered by the fact that they will have to bear the cost since their variable compensation will be reduced by a coefficient corresponding to the *weighted average cost of capital* (CMPC).

¹⁵ Earnings per share : Earning Per Share (EPS).

¹⁶ The Price to Book (PBR) called *Net Assets Course Where Equity-multiples*.

¹⁷ Retained earnings are cumulative of profits Where deficits of previous years not distributed or allocated to the reserve

¹⁸ Equity, equity, equity and net assets are four synonyms that refer to the "book value" of the business that is deducted from the balance sheet

¹⁹ Equity is the capital invested by the owners of the business.

²⁰ All of the "employed" capital is equal to the sum of equity (*KP*), provided by capital providers, plus the capital acquired through debt (*DF*, for financial debt).

²¹ The MVA, registered trademark of J. Stern and G. Stewart, concerns companies listed on the stock exchange. added market. The sequence of future flows of the EVA makes it possible to determine, in a second step, the MVA by discounting them at the weighted average cost of capital.

²² Value created = Market value (MV) - net book value

Market Value of Shares = Patrimonial Value (Net Assets) + Goodwill

²³ Every day on the stock market, the share price changes, depending on phenomena that are sometimes difficult to interpret.