

3. Research Gap:

There is enough scope of research to examine whether the concerned Merger or Acquisition has actually added to shareholder's wealth.

Shareholder's returns essentially comprises of dividends plus capital appreciation in the form of an increase in the market value of equity share of the company held by the investor and increasing shareholder's wealth means increasing the market value of equity shares.

While conventional shareholder's wealth look at market values, a new set of matrices has been developed which, apart from looking at market value, also look at economic value, which takes into account the cost of capital in terms of the expected returns of the providers of the capital, both debt as well as equity. Economic value will be created only if the returns, be it operating profits or the market values exceed the cost of capital. Based on these premises, Stern Stewart has suggested the use of two matrices to measure shareholder's wealth addition, namely, 1. Wealth Added Index (WAI) and 2. Economic Value Added (EVA).

The primary advantage of economic value measures is that they take cognizance of opportunity cost of capital and thus recognize wealth addition only if it exceeds the imputed cost. The second advantage is that they take into account both market values as well as accounting figures such as Net operating profit after tax (NOPAT) and provide a link between market values and the operating performance of the companies. Finally the biggest advantage of these measures is that they enable an analysis of the expectational and operational components of corporate performance which is of particular relevance in M&A evaluations.

