

Economic value added (eva)



Economic Value Added (EVA) is a measure of the actual performance of an enterprise when it comes to financial matters.

It is different from the actual accounting profit. This deducts the costs of capital, thus placing more emphasis on effectiveness and operating efficiency, and balance sheet management. It is the measure of the true, actual profit of a certain company or enterprise, where it could be done on a company-wide basis or divided into sub-divisions. EVA is the net operating profit, less the suitable charge for the opportunity cost of all investments in the enterprise. It is the true economic profit, an estimate of the necessary minimum rate of return that investors could gain upon risking their money in other securities (Stewart, 2004). OutSource, Inc.

(OSI) is an example of a business enterprise which is expanding, gradually improving, and thus promising a good future in the business sector. It is a computer service provider which serves support services to a several business firms in their immediate vicinity. As the economy continuous to flourish, this spells a strong potential for a high amount of earning for OSI. This company handles the tasks outsourced by other companies including personnel placement, payroll, human resources, insurance and data processing.

For a company like OSI, the application of Economic Value Added is a good choice because it eliminates the confusion of multiple goals because it utilizes a single measure of handling finance wherein it links all decision making on the improvement of EVA. It is a system of management that gives the employees a general language, whatever sector they belong to and

whatever staff functions they perform. It is a goal-oriented point of view, the value added to shareholder investment. To compute for the EVA of OutSource, Inc.

the following equation will be used: EBIT (Earnings before interests and taxes) = \$73,904 Tax Rate = 35% NOPAT (Net operating profits after taxes) = \$48,037.6 Total Capital = \$169,838 After-Tax Cost of Capital = 12.5% Dollar Cost of Capital = \$21,229.75 EVA = \$48,037 - 21,229.75 EVA = \$26,807.

25 You take into consideration the profit that they make after it was taxed, and then subtract the appropriate charge for the opportunity cost considering all the capital investment in the context of OSI as a firm. Key Issues There are various concerns that is being tackled in the case of OutSource, Inc. and the application of EVA. The following are the key concept and issues that will be addressed in this case. Healthy economy leads to higher earnings.

OSI is classified as an information services firm, which is composed of independent entrepreneurs that give a variety of services clients coming from the government and other corporations. Basing on this, an economy which is continuously gaining strength means a growing market for OSI. This is because of the increase in the number of firms availing their services. These firms have no spare time to manage some tasks, that's why they outsource it to companies like OSI.

They let them manage tasks like payroll, human resources, and data handling. The role of EVA is to stabilize the continuous influx of business

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engagements and opportunities as the market for this type of business increases. Since there are a variety of concerns that OSI would take into consideration, an organized system of handling your financial concerns is a good investment. Payroll Processing and Tax Filing. OSI's move on pursuing additional opportunities came to light with payroll processing and tax filing services. Their purchase of a medium-sized firm that had an established market which provides every necessary process is a proof of this move.

The firm takes care of various processes which include payroll calculation, processing, and reporting services for several other firms on the East Coast. EVA is useful in this aspect, especially because of the firm they had purchased do multi-tasking, handling various tasks for other firms as well. EVA is essential to OSI because they are gradually expanding; slowly increasing the number of companies they are serving, thus their quality of service should not be diminished. Development of PayNet.

Another move that OSI made was to modify and replace the outmoded payroll processing system of their acquired firm. They called it PayNet. Once this is developed, it promises the users an integrated payroll solution, which is less complex than the other payroll system they have. It also has a different look, a more graphical interface. Data compilation is sped up by lessening the manual data that enters, thus, making analysis of the material faster. PayNet will hopefully be OSI's service bureau payroll processing unit in the future.

If you will apply EVA on a newly structured system, it will reduce the burden of labor, thus lessening the number of workers needed to run that branch.

Recommendations Looking clearly at OutSource, Incorporated's case, EVA could be maximized with aspects that do multiple tasks because EVA eliminates the confusion of multiple goals. You orient your personnel; you company as a whole, to the improvement of Economic Value Added, the only financial management system with a common language for employees, which is to alleviate the value added to shareholder investment. Most companies use a variety of measures to express financial goals and objectives. Looking at OSI, they are slowly expanding, acquiring new firms like the payroll processing firm they had bought.

Strategic planning often uses the revenue or market share growth as a basis of evaluation. Finance departments usually look closely into the primary investments in terms of its net value/ without ignoring prospective acquirement versus the possible contributions to earnings growth.