

Implementing EVA

Implementing EVA in a company is more than just putting one additional row in the income statement. It is of course some kind of change process which should be given some management effort. However, if right actions are taken straight from the beginning, then implementing EVA should be one of the easiest change processes that a company goes through. The actions might include e.g. :

Gaining the understanding and commitment of all the members of the management group through training and discussing and using this support prominently during the process

Training of the other employees, especially all the key persons

Adopting EVA in all levels of organization - it should definitely not be only a tool for the management group

Integrating EVA as a bonus base for all employees (of course this is not a must but it facilitates the process and has favourable effects after the implementation)

Management commitment - gaining and using it

The whole EVA process begins normally with CFO's or CEO's interest in the subject (often investors or colleagues from other companies have raised the interest)

First step in implementing EVA should be informing the whole management team thoroughly about the subject

It is more than likely that some managers are suspicious at the beginning and therefore it is very important to make sure that everyone understands the concept thoroughly (discussing essential - not one-sided informing)

- After all the managers know exactly what EVA is all about and what differences there are compared to other measures like EPS and ROI it is very unlikely that someone is against the concept any longer

After gaining the commitment of upper management it is very important to use it

- CEO and all the division managers etc. should signal prominently to their subordinates that they support and believe in the concept

Employee training

It is also essential that key persons are trained to understand EVA well because they are the ones who use it operationally and their commitment is essential in bringing EVA downwards

EVA is such an easy concept that it can and often should also be told to all employees

Supervisors should tell about the concept to their subordinates (in order to demonstrate the importance of the concept) or at least be able to answer most of the questions of their subordinates

Employee training can be done with the help of simplified training material (which is produced carefully by some experts e.g. from financial department)

Taking EVA downwards

EVA is not even near as powerful as it could be if the concept is not in use at the operating level of the organisation (at the worst case financial department makes EVA-calculations for upper management and the concept is not used elsewhere in the organisation)

EVA is powerful at operational level to illustrate the costs of working capital (inventories, sales receivables etc.) and therefore particularly operating employees (sales people, operating engineers etc.) are in a key position in this context

Often EVA approach helps in opening the eyes of operating employees to see how costly capital is and thereafter the working capital can usually be reduced without a similar reduction in revenues (or increase in other costs)

Using EVA in day-to-day operational activities means that all the actions can be quite easily converted into EVA-changes and thus employees would be able to know how to improve EVA

EVA can be also calculated by products and by customers

Bonus system for all employees

Introducing EVA-based bonus system simultaneously with EVA facilitates the whole change process considerably, since employees are naturally very interested in all that affects their payroll

Bonus system helps also later on in integrating the interests of employees and shareholders and thereby inducing all the employees to struggle for the common goals

However in some employee extensive branches it is difficult or impossible to bring EVA-bonuses to the level that they are stimulating - in that case there is perhaps no sense to introduce any EVA bonuses for all the employees, but for upper management and key employees EVA-bonuses have almost always favourable and powerful effects if tailored carefully