
Assess the Performance of Congolese Organizations Converted to Commercial Businesses using the Economic Value Added Approach

Abdus Salam¹, Mamoon –Ur-Rashid²

¹Assistant Professor, School of Business, Additional Director- IQAC, Presidency University,
Dhaka, Bangladesh

²Business Academic Institute, Nanjing University Science and Technology, Nanjing, China

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ABSTRACT: *This study aims to demonstrate the significance of assessing corporate success in terms of economic value added (EVA). Economic value added is widely recognized as a reliable metric for assessing the performance of private firms. Four organizations were chosen, and their performance was assessed using the EVA approach from 2016 through 2022. The following outcomes were found as a consequence of the analysis: National Electric Company (NEC), Congo National Railway Company (NRCC), and Port Transportation Company (CCPT). A positive EVA, on the other hand, represents value creation for a Water Distribution Company (WDC). Endogenous variables such as the steady fall in factor returns to labor, poor operating performance, and low capital profitability cause value destruction. Yet, ethics and openness are essential for attaining success. Corporate success in terms of economic value added (EVA). Economic value added is widely recognized as a reliable metric for assessing the performance of private firms. Four organizations were chosen, and their performance was assessed using the EVA approach from 2016 through 2021. The following outcomes were found as a consequence of the analysis: National Electric Company (NEC), Congo National Railway Company (NRCC), and Port Transportation Company (CCPT). A positive EVA, on the other hand, represents value creation for a Water Distribution Company (WDC). Endogenous variables such as the steady fall in factor returns to labor, poor operating performance, and low capital profitability cause value destruction. Yet, ethics and openness are essential for attaining success.*

KEYWORDS: economic analysis, economic value, commercial business, transportation

INTRODUCTION

For many years, public enterprises have played a very important role in economic and social development. This role is evident in their contribution to the gross domestic product and in job creation. Whatever the nature of the activities, the legal form, the size, the company remains a significant player in the transformation of the lives of citizens. However, it is clear that the results obtained for Congolese public enterprises in terms of performance are still far from being a reality for the achievement of objectives and missions. Indeed, the financial management of these public

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enterprises is often criticized following in particular the lack of rigor and non-compliance with legal texts [1-3]. They are described as less efficient than private companies. They carry out two missions that are often contradictory and difficult to reconcile, i.e. a com-metrical-type management in accordance with the logic of private companies and the search for the satisfaction of the general interest conferred on it by its public nature. They do not have a strict obligation of profits or distribution of dividends. On the other hand, it has the obligation to balance the expenses and the products. In the DRC for several years, the so-called public years have increasingly known poor performance [4,5]. The State; aware of the difficulties encountered by them, decided to transform some of them into commercial companies and it was through the reform of July 07, 2008. The ultimate goal of this reform was to give these companies a private-type management to breathe new life into them, make them profitable and make them one of the links in good governance. The fundamental question that this study will try to answer is: what were the performances achieved six years after the transformation process, i.e. from 2016 to 2022?

By way of anticipatory responses, the measure taken by the government to transform public enterprises into commercial companies would have a positive impact on the performance of the latter by creating a strong Economic Added Value (EVA) and a high economic and financial performance. Thus, to manage to respond to this concern, we have structured this study in three points; in addition to the introduction and the conclusion, first we will ex-plain the different key concepts of our study, namely: performance and EVA, Then, then, we will present the research methodology and finally the results obtained by analyzing the different both internal and external underperformance factors that influenced the underperformance of these companies.

CONCEPTUAL FRAMEWORK AND LITERATURE REVIEW

Commercial Society

A company is a legal act by which two or more people agree, by contract, to al-locate to activity goods in kind or in cash in order to share the profit or take ad-vantage of the savings that may result. According to the uniform act adopted on April 17, 1997, relating to company law and economic interest grouping in its article 4, a commercial company is a company whose form or object is commercial.

The uniform act therefore retains six forms of commercial companies, namely:

- ❖ The public limited company;
- ❖ The limited liability company;
- ❖ The general partnership;
- ❖ The simple limited partnership;
- ❖ The joint venture;
- ❖ And the economic interest group.

The Performance

1. In everyday language, performance refers to four major meanings.

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2. The results of the action: the performance then corresponds to a result measured by indicators and situated in relation to a reference, to a referent which can be endogenous or exogenous;
3. Success: performance refers to a positive result, and therefore to the representations of success specific to each individual and each institution;
4. Action: performance simultaneously designates the results and the actions implemented to achieve them, i.e. a process;
5. Capacity: performance then refers to potential;
6. Performance is the reason for management positions, it involves efficiency and effectiveness;
7. Defines performance as the ability of the organization to achieve minimal satisfaction of the expectations of its strategic customers;
8. As Performance is an association between functional efficiency and strategic efficiency. Functional efficiency consists of improving products, purchasing, production processes, the marketing function and human relations within the company while strategic efficiency consists of getting ahead of competitors by positioning oneself in a growing market or by withdrawing from a declining market;
9. As performance can be defined as the degree of achievement of the desired goal;
10. Effectiveness: the result obtained in relation to the level of the goal sought;
11. Efficiency: the result obtained in relation to the means implemented;
12. Effectiveness: the level of satisfaction obtained in relation to the result obtained.
13. The definitions cited above show that performance is associated with effectiveness and efficiency.
14. Effectiveness is the relationship between the results obtained and the objectives set.
15. Efficiency is the relationship between means and the total efforts deployed as well as the results obtained. Some definitions include other variables: results, effort and behavior.

In this sense, performance is defined as the ability to obtain better results, by providing a minimum of effort and by behaving appropriately in order to achieve the de-sired objectives. Performance can be economic, financial, social, human, managerial, organizational, technological, commercial, societal and strategic. With regard to financial performance, it should be noted that it is closely linked to economic performance. It is measured by several ratios such as return on asset (ROA), return on equity (ROE) and market to book (MTB). The ROA and ROE measures have been used by several authors to designate the financial performance of companies. ROA (Return on assets): this variation

Publication of the European Centre for Research Training and Development-UK represents the profitability of invested capital and expresses the capacity of this capital to create a certain level of operational profits.

This measure has been used by a very large number of others. For the calculation of the ROA, the measure that we will retain in our study is:

- ❖ ROA = operating profit/total assets
- ❖ ROE (Return on equity): represents the return on capital invested by share-holders to generate a certain level of net profits. Several authors have also used this performance measure such as Bogliolo (2000).
- ❖ The measure that we have been able to retain is the following:
- ❖ ROE = net profit/equity

EVA, as a Measure of Performance

Definition

The EVA (Economic Value Added), is defined as the difference between the operating profit of the company after tax and the return on the capital used for its activity. The basic idea of EVA, consists in saying that a company creates value for its shareholders when the profitability of the capital invested exceeds the cost of the various sources of financing used, both debt and equity. This is justified by the fact that the latter do not represent a means of free financing since the shareholder's demand re-moderation for the risk taken. Popularized in the mid-1990s by the Anglo-Saxon consulting firm, Economic Value Added (EVA) or Economic Value Added is a very important measure of economic and financial performance of a company.

Measure

EVA is used to measure the effectiveness of management. So, the economic and financial enrichment of the company over a financial year taking into account not only the cost of debt as does the net result but also the cost of equity.

Reasoning in terms of profitability, the EVA is rewritten as follows:

- ❖ $EVA = (ROIC - WACC) \times CI$ STEWART formula, or $EVA = (ROIC - WACC) \times \text{net assets}$. According to Stewart, EVA is equal to the difference between operating profit and adjusted tax and return on invested capital.

Therefore, $EVA = \text{operating profit} - \text{return on capital employed}$ or even $EVA = \text{BN after tax} - (WACC \times CI)$.

With ROIC (Return On Invested Capital), the rate of return on invested capital. The advantage of EVA over other traditional performance measures, such as net earnings per share, return on equity or return on assets, is that it takes risk into account. The EVA judges the performance according to the profitability of investments (ROIC) while taking into account the cost and therefore the weighted average cost of capital (WACC) of the different financing methods (CI). The EVA is a management indicator that is generalized at all operational levels by raising the awareness of the various actors on

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the objectives of the results but also on the costs of the financial resources made available to them. When the EVA is positive, the company generates a return in excess of the cost of the funds made available. The company creates wealth for shareholders. When the EVA is negative, the performance of the company's investments or projects is insufficient to cover the financing costs, and it is therefore destructive of value only if the economic profitability exceeds the cost of capital.

The Components of EVA

The components of the EVA calculation are as follows:

- ❖ Return on capital;
- ❖ The amount of capital;
- ❖ And finally, the cost of invested capital.

Return on capital

Different ratios make it possible to understand the return on capital: return on capital employed (ROCE), economic return (ROA) or return on invested capital (ROIC). All these ratios will report a result to the resources used to achieve it.

The net result has the disadvantage of taking into account the financial results, which can, in the event of a significant sale of marketable securities, have a favorable impact on the profits. Accounting arrangements (Windows dressing) such as provisions or exceptional operations sometimes lead to doubts about the sincerity of the net result. To allow comparisons between companies, only the operating result is a relevant and representative criterion of the quality of a company's activity.

The amount of capital invested

Invested capital (CI), in their financial view, is made up of resources provided by shareholders and creditors, i.e. equity (CP) and financial debt (D). In a more operational vision but in an equivalent way, invested capital is defined as the sum of fixed assets (AI) and working capital requirement (BFR). We will also talk about capital employed (CE) or economic assets (AE).

$$CI + CP * D \text{ or } CI + AI = BFR$$

over a period by calculating the average of the capital invested between the debit and the end of the fiscal year. The amount of capital invested at the end of the period is equal to the amount of capital invested at the end of the previous period. This average makes it possible to take into account the lag between the date of the investment and its effects on the operating result. It looks like this:

$$\text{Average CI} + \text{Start CI} = \text{End CI}/2$$

Cost of invested capital

The cost of capital invested in the calculation of EVA is measured by the average cost of capital. Weighted average cost of capital (WACC) in the presence of taxes is the average of the costs (k_{CP} and k_D) of each financing resource (debt and equity) weighted by their respective weight in the financial structure.

$$CMPC + K_{cp}CP / 1 - TIS * D / K_{cp}$$

The cost of capital employed expresses the expectations of the various funders in terms of profitability. These costs will be used as a reference to assess the level of performance of a company. The cost of equity, measured by CAPM, is more than the cost of borrowing, given the risk incurred by shareholders. This cost difference is reinforced by a different tax treatment of financing methods, with the deductibility of interest.

Knowing that the financial profitability ROE (Return On Equity) is the ratio of net income to equity.

$$ROE = RN / CP$$

The EVA will be equal to $(RE - k_{CP}) \times CP$ (ROIC - CMPC) CI or $EVA = (ROIC - CMPC) CI$.

Appreciation of the EVA**The EVA can be positive, zero, or negative**

A positive EVA means the company has created shareholder value. In other words, the company's profitability is higher than the return on the capital provided to finance the economic asset;

A null EVA generates a situation of equilibrium. That is to say, the company neither creates nor destroys value;

A negative EVA means that there has been destruction of value. The central message of EVA is that it is not enough to have a positive net income or a certain level of earnings per share but a company must earn enough to cover the cost of debt and the cost of capital opportunity.

The EVA makes it possible to measure the effectiveness of the management of the leaders. It is equal to my difference between operating results and return on capital employed. It judges the company's performance based on the return on capital employed, but also on its costs and on both operational and strategic risk.

Review of Empirical Studies

The literature review was devoted to studies carried out by:

- ❖ Contamin [6-7] showed that the process of disengagement of the State in public companies in Côte d'Ivoire was carried out under conditions of low transparency. This resulted in economic and financial underperformance and low productivity of the labor factor resulting in a lower contribution to the State budget. Public enterprises still continue to be under the yoke of politicians.
- ❖ Otemikongo [8-10] who studied the reform of portfolio companies reformed in 2008. He came to realize that the issue was not the transformation, dissolution or all-out liquidation. But rather

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it was necessary to revolutionize the managerial culture of the Congolese leaders who since the second Republic were immersed in the operations of embezzlement of funds. This situation is the basis of the un-ceasing deterioration of business performance. He further stigmatized the omnipresent presence of politicians at the head of companies [11] had to emphasize in his study, the importance of public enterprises in the contribution to the state budget. He showed that these companies in good working order would allow the Congolese State to achieve certain economic and social objectives. The transformation is a good thing, but it must be followed with great rigor so that expectations are more realistic than unrealistic.

❖ Omneya et al. [12-14] conducted a study on the relationship between ROE and ROA on the one hand and EVA and EVAM on the other hand on Egyptian companies listed on the STOCK EXCHANGE. The results of their research showed a significant impact for the two economic values added on the financial performance of the company, with the exception of EVA and ROA. In addition, it was found that EVAM could be considered as the most effective economic measure to improve and explain financial performance.

PRESENTATION OF THE RESEARCH FRAMEWORK AND METHODOLOGY

Research Framework

The National Railway Company of Congo “NRCC” in acronym

The NRCC, formerly called NCRCZ (National Railway Company of Zaire) has undergone several reforms since 1974. The last reform dates from 2008, [15] that is to say article 4 of law n°08/008 of the July 07, 2008 [16] and decrees n°09/11 and 0912 of April 20, 2009 transform the NRCC into a commercial company (SARL) then into an impersonal limited company with a Board of Directors on 09/06/2011[17-19].

The mission of the RNCC is:

- ❖ The operation of railways and ports as well as road and hydraulic transport services;
- ❖ Study, construction and operation of the railway and the ports as well as the road and hydraulic services which succeeded it;
- ❖ And the operation of any related service as ancillary to the above activities. The RNCC operates with the following bodies: The General Assembly, the Board of Directors, the General Management and the Colleges of Statutory [20-23].

The National Electricity Company (NEC) in acronym

The National Electricity Company “NEC” is a public law establishment (or public company) of an industrial and commercial nature created by ordinance-law n° 73/033 of May 16, 1970 and transformed into a commercial company by article 4 of law n° 08/007 of July 7, 2008 and by decree n° 09/12 of April 24, 2009. Its purpose is the production, transport and distribution of electrical energy. Its statutes were published in the special issue of the official journal of December 29, 2010.

NEC's capital structure consists mainly of equity and borrowings. With regard to equity, the capital is entirely represented by State shares.

NEC operates with the following bodies: the Board of Directors, a Management Committee composed of the Managing Director, Deputy Managing Director, the Department Director and the Executive Director.

The Water Distribution Company (WDC) in acronym

The Water Distribution Company "WDC" is a public company with a legal monopoly organized by the framework law n° 78/002 of January 16, 1978. Be-cause it has not achieved the economic and social objectives assigned to it by the owner State, it was since 2008 transformed into a commercial enterprise by law n° 08/007 July 2008.

Its social objective is:

- ❖ Operation on behalf of the State and management of water distribution ser-vices as well as ancillary supply, pumping and sterilization facilities;
- ❖ The study of the realization of the exploitation and the management on be-half of the republic of the new installations or extensions of the existing in-stallations of production and distribution of water.
- ❖ WDC's capital structure is made up of equity and borrowings.
- ❖ The equity is represented by a share capital wholly owned by the Congolese State. WDC works with the following bodies:
- ❖ Board of directors;
- ❖ The College of Statutory Auditors;
- ❖ And finally the Management Committee.

The Commercial Company of Ports and Transports (CCPT) in acronym

The CCPT ex ONATRA is a public law company created by decree n° 0051 of November 07, 1995 and transformed by article 4 of law n° 8/008 of July 7, 2008 and decrees n° 09/11 and 09 /12 of April 24, 2009 into a limited liability compa-ny called Society Commercial des Transports et des Ports CCPT in acronym.

Its mission is, among other things:

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To operate the multimodal transport services combined or not, of people, goods or any other objects.
To operate sea and river ports, shipyard management, ancillary and related activities.

The CCPT works with the following bodies:

- ❖ Board of directors;
- ❖ The College of Statutory Auditors;

- ❖ And finally, the Management Committee.

RESEARCH METHODOLOGY

Collection of Data

The achievement of the objectives of this study was made possible thanks to the use of the documentary technique and free interview. The documentary technique made it possible to collect accounting and financial data in the financial statements as well as the annual reports for the period from 2016 to 2021, while the free interview technique helped us to talk to agents and executives of companies. Under study also leave to collect the points of view of the experts of the government. The Congolese government experts contacted are those of the Ministry of Portfolio who manage public companies that have been transformed into commercial companies.

These companies were once considered lame ducks and almost in declared bankruptcy. So they had to be transformed into a commercial company to make them efficient and profitable. The data concerns the following companies: NEC, WDC, CCPT and NRCC. That is two companies from the energy sector and two from the transport sector. We chose the four companies for the following reasons:

- ❖ The energy and transport sector is strategic for the Congolese national economy;
- ❖ Their expected contribution to the Congolese state budget and finally the elasticity of demand for their goods and services were very high.
- ❖ These data provided by the financial department of these companies were subsequently deflated to contain the constant francs easily usable for a better comparison: the deflator rates were as follows.

Data Analysis and Processing

The data collection allowed us to process the following data according to the EVA approach using the formula proposed by STEWARD:

$$EVA + (ROIC - CMPC) \cdot CI$$

Where

$$\begin{aligned}
 & \text{resultat net (1-} \\
 & \text{ROIC Tis)} \\
 & + \\
 & \text{actiftotal} \\
 & \text{CMPC} + \frac{\text{CP}}{\text{CP+ D}} + \text{KD(1 -} \frac{\text{D}}{\text{CP+D}} \\
 & \text{KCP} \text{ Tis)} \cdot
 \end{aligned}$$

And the capital invested: CI.

This enabled us to determine respectively, for the different companies, the following aggregates: ROIC (return on invested capital), WACC (weighted cost of capital), invested capital (CI) and EVA (Economic Value Added). It should be noted that: The cost of equity K_{CP} is measured not by this model of GORDON SHAPIRO or the CAPM but rather by the ratio: net result on own resources or RN/RP.

The cost of debt K_d is measured by the ratio: financial expenses incurred over total financial debt, i.e. $FF / (D \text{ Fin})$.

T: corporate tax rate; Results obtained

EVA from 2009 to 2021 for WDC and NEC (Table 1 & Table 2)**Table 2.** Evolution of the EVA from 2019 to 2021 for WDC and NEC.

Years	Headings	ROIC (1)	CMPC (2)	CI (3)	(4) = [(1) - (2)] (3)
					EVA
2016		8.45%	6.34%	15.625.878	(231.106.735.62)
2017		4.84%	1.82%	18.006.758	54.380.409.16
2018		16.25%	5.56%	24.685.726	263.890.410.9
2019		18.52%	11.02%	28.814.743	201.110.572.5
2020		20.4%	10.81%	26.963.724	258.582.113.16
2021		15.2%	8.81%	25.848.782	165.173.716.98
Average		13.94%	7.39%	-	-

Source: The authors based on the financial statements provided by the accounting de-partment of Regideso and WDC.

Table 2. Evolution of the EVA from 2016 to 2021 for NEC.

Years	Headings	ROIC (1)	CMPC (2)	CI (3)	(4) = [(1) - (2)] (3)
					EVA
2016		(2.84%)	1.10%	16.846.463	(66.375.064.22)
2017		(3.61%)	1.62%	19.451.681	(101.732.291.63)
2018		(1.11%)	2.13%	21.44632	(69.480.607.68)
2019		(1.06%)	1.14%	24.814.608	(54.592.137.6)
2020		1.49%	1.81%	18.645.481	(61.530.087.3)
2021		1.62%	0.89%	19.688.268	(14.372.435.64)
Average		-1.96%	1.45%	-	-

Source: the authors based on the financial statements provided by the accounting de-partment of NEC.

In the sector of energy (WDC and NEC):

This table shows a net creation of value for Regideso. EVA is therefore positive on average over five years. This creation of value is mainly due to the improvement in operating income, which therefore had an impact on the return on capital employed, i.e. an average of 13.94% for a weighted average cost of average capital of 7.39%. However, during the same period there is a need to destroy the value for SNEL either going down 1.96% for ROIC vs 1.45% in WACC.

The deterioration is explained by the deterioration in operating income which subsequently destroyed the return on capital employed, i.e. an average of -1.96%.

Evolution of the EVA from 2016 to 2021 for the CCPT and NRCC (Table 3 & Table 4)

Table 3. Evolution of the EVA from 2016 to 2021 for the company CCPT.

CCPT				
Headings	ROIC (1)	CMPC (2)	CI (3)	(4) = [(1) - (2)] (3)
Years	EVA			
2016	(2.06%)	3.14%	18.728.425	(97.393.010)
2017	1.64%	2.84%	20.432.625	(24.519.150)
2018	(1.42%)	2.51%	21.625.435	(84.987.959.55)
2019	(5.11%)	1.08%	22.561.481	(139.655.567.39)
2020	6.04%	1.50%	10.756.585	(81.104.650.09)
2021	3.61%	1.29%	12.688.729	(62.174.772.1)
Average	0.45%	2.06%	-	-

Source: the authors based on the financial statements provided by the accounting department of the CCPT.

Table 4. Evaluation of the EVA from 2016 to 2021 for the company NRCC.

NRCC				
Headings	ROIC (1)	CMPC (2)	CI (3)	(4) = [(1) - (2)] (3)
Years	EVA			
2016	(1.96%)	3.14%	20.566.422	(1.048.887.52)
2017	(0.32%)	1.54%	18.781.862	(349.342.6)
2018	(1.11%)	4.05%	19.681.426	(90.731.373.9)
2019	(1.06%)	2.61%	19.268.411	(298.660.4)
2020	(1.49%)	1.41%	20.122.605	(728.438.3)
2021	(1.29%)	1.61%	21.683.423	(62.881.926.7)
Average	-1.21%	2.39%	-	-

Source: the authors based on the financial statements provided by the accounting department of the NRCC.

In the transport sector (NRCC and CCPT):

It will be noted through this table that during the period under examination, there was deterioration in the value for the CCPT. This deterioration is explained by a very low return on capital employed, i.e. an average of 0.45% and the average WACC being 2.06%.

The company has not created shareholder value. In other words, the profitability of the company is lower than the remuneration of the capital provided to finance the economic activity. This situation is due to a sharp deterioration in operating income. The same situation is made at the NRCC. Indeed, for this company, a destruction of the value was recorded, i.e. negative EVA over the entire period under examination. A return on capital employed very low and negative the average is 1.21% and 2.39% in WACC. This is due to a constant deterioration in operating income, which fell by around 25% and led to a drop in return on invested capital by 1.21% on average. We realize that in the companies thus studied, the costs are difficult to control because of the strategic nature of the energy and transport sector. Indeed, these costs are very sensitive to economic factors, in particular to the variation in demand in relation to the variation in prices (elasticity of demand for energy and transport). In the sectors listed, demand is very elastic and reacts more sensitively to price variations.

The analysis also shows us that the Economic Added Value EVA is significantly influenced by the importance of WACC, CI and ROIC. By taking only these three elements, we notice that the financial structure and the return on in-vested capital of each of these companies play a determining role in the creation of values. To these elements, it will also be necessary to add exogenous factors such as the politicization of the function of leaders. Indeed for more than once, these results confirm the analyzes of our predecessors namely: Contamin (2005), Otemikongo (2009) and Omombo (1997). Transformed public enterprises are still politicians' cash cows. These plunge them into a situation of constant poor performance. Non-compliance with financial management rules, corruption, embezzlement are all evils that continue to plague these companies even after their transformation into commercial companies.

Conclusion

The objective pursued in this article was to show the importance of the EVA method or economic profit as a measure of performance of Congolese public companies transformed into commercial companies. EVA is currently one of the most widely used methods for evaluating business performance. The results obtained during the period under examination led us to note that the activities of these companies analyzed in particular NEC, CCPT and NRCC destroyed the value. However, WDC had the performing during the period except for the year 2106. This positive EVA situation is justified by a positive average operating result. During the same period, the return on invested capital is higher than the cost of capital. Therefore, the EVA in general increases or decreases according to its constituent elements, namely: the ROIC, CI and WACC the Weighted Average Cost of Capital which is dependent on the financial structure of the company. Alongside these three factors, it can also be noted that other factors are also decisive, namely: the internal governance mechanism, ethics and transparency, taking in-to account the aspirations of other stakeholders such as employees, customers, etc. All these elements mentioned must be put to use for the good achievement of performance and the creation of values. It is not a simple transformation that counts for these companies already struggling to grow, but rather new financial resources (recapitalization), ethics on

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the part of managers and the adoption of an effective governance system that will allow maximize value and minimize various agency costs. Like any research work, our study is not free from weaknesses. Indeed, the study proposed four companies transformed into commercial companies. This limits the generalization of the sample. Other studies can be carried out using a larger sample than ours. Also concerning the EVA, there is the difficulty with a valid and recognized reference. This indicator also suffers from short-term risk. It remains an annual performance indicator. Because we cannot say that a high EVA over a financial year is a sure sign of a long-term wealth creation policy.

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