INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE & MANAGEMENT

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   INTRODUCTION

   REVIEW OF LITERATURE

   NEED/IMPORTANCE OF THE STUDY

   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

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   ACKNOWLEDGMENTS

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   APPENDIX/ANNEXURE

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BOOKS

- Bowersox, Donald J., Closs, David J., (1996), "Logistical Management." Tata McGraw, Hill, New Delhi.
- Hunker, H.L. and A.J. Wright (1963), "Factors of Industrial Location in Ohio" Ohio State University, Nigeria.

CONTRIBUTIONS TO BOOKS

- Sharma T., Kwatra, G. (2008) Effectiveness of Social Advertising: A Study of Selected Campaigns, Corporate Social Responsibility, Edited by David Crowther & Nicholas Capaldi, Ashgate Research Companion to Corporate Social Responsibility, Chapter 15, pp 287-303.

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CONFERENCE PAPERS

- Garg, Sambhav (2011): "Business Ethics" Paper presented at the Annual International Conference for the All India Management Association, New Delhi, India, 19–22 June.

UNPUBLISHED DISSERTATIONS AND THESES

- Kumar S. (2011): "Customer Value: A Comparative Study of Rural and Urban Customers," Thesis, Kurukshetra University, Kurukshetra.

ONLINE RESOURCES

- Always indicate the date that the source was accessed, as online resources are frequently updated or removed.

WEBSITES

- Garg, Bhavet (2011): Towards a New Natural Gas Policy, Political Weekly, Viewed on January 01, 2012 http://epw.in/user/viewabstract.jsp

EVA: ARE FIRMS WITH HIGHER EVA TRANSLATING INTO MAXIMIZING RETURNS FOR SHAREHOLDERS - A STUDY ON SELECTED INDIAN IT COMPANIES

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ABSTRACT
Today's business is about creating value for shareholders while maximizing the wealth. As more and more retail investors are investing in equity market expecting good returns on their investments, it becomes necessary for the organizations to perform effectively in diverge circumstances and enhance the quality of the expected return for the Investor. Even though there are various measures of shareholders value, such as EPS and new measures like Strategic Profit Models, PE ratio, Economic Value Added. This study which is in descriptive nature is aimed at effectiveness of EVA as a true measure of Shareholders value. For the purpose of this study, we have selected 3 listed companies from IT Sectors, which are capital oriented and needs huge influx of funds over a period of time in ever changing technology. The study is based on the publicly available data, viz. annual reports, balance sheets and stock market. Further the study also tried to assess the correlation between shareholders value with the stock market price, to check whether the higher EVA translates to the maximization of share holders value over a long period of time by testing the hypothesis. The study revealed that there is no strong pattern of EVA of selected IT companies during the period. The wealth created by most companies in year 2008 and 2012 has decreased because of higher cost of capital than that of other years

KEYWORDS
Correlation, EVA, IT Sector, Returns.

JEL CODE
G10, G11, G13.

INTRODUCTION
A company can best maximize wealth by leveraging its most distinctive and proprietary assets - the talent, ingenuity, and energy of its people". That's what EVA does, and that's what makes it so powerful. *Joel M. Stern, CEO, Stern Stewart & Co., 1995*

The important goal of financial management is to create highest capital employees (owners & lenders) wealth and consequently enhancing the value of the firm. The question arises is, which measure valuates firms value properly. In answer to this question, it can be said, various accounting based measures like Earning Per Share (EPS), Return on Equity (ROI); Return on Capital Employed (ROCE) and growth in sales have been used to evaluated the performance of the business. But the problem with these performance measures is that they lack a proper benchmark for comparison. The shareholders require at least a minimum rate of return that the above mentioned performance measures ignore.

In order to overcome the limitations of accounting based measures of financial performance, Joel Stern, managing partner of M/s Stern Stewart & Co. introduced a modified concept of economic profit in 1990 in the name of Economic Value Added (EVA) as measure of business performance.

Market prices of the shares reflect the performance of the company. Today, wealth created by the company is more important than the profit it earns or the dividend it pays to the shareholders. Creating value for shareholder's value is the core of every business. This is natural since shareholders own the company and as rational investors expect good long-term yield on their investment. Commonly used accounting measures are Earnings per Share, Return on Investment, Net Profit Ratio etc.

Apart from this, value based metrics of performance evaluation like EVA (Economic Value Added), MVA (Market Value Added), CVA (Cash Value Added) and Cash Flow Return on Investment have come into existence. These all the performance metrics which seek to measure the periodic performance in terms of change in value.

Economic Value Added is a comprehensive measure of operating performance. It measures the change in financial worth of an enterprise from one year to the next. It is a more comprehensive financial measurement tool than net income (revenues minus expenses) alone, because it includes the cost of the capital used to generate that income.

In simple words EVA is —The monetary value of an entity at the end of a time period minus the monetary value of that same entity at the beginning of that time period.

What separates EVA from other performance metrics such as EPS, EBITDA, and ROIC is that it measures all of the costs of running a business—operating and financing.

Economic value added is the performance metric that calculates the value creation of the shareholders investment. Economic value added is the method to determine whether the firm is earning the higher rate of return on the entire funds at which the cost of funds are measured in terms of weighted average cost of capital.

RATIONALE FOR USING EVA

What an accountant calls profits in an income statement includes a charge for the debt capital employed which is commonly referred to as interest expense. However, an income statement does not include a charge for the equity capital that was employed during the accounting period. Therefore, EVA goes beyond conventional accounting standards by including a provision for the cost of equity capital. The cost of equity needs to be factored into business investment decisions in order to enhance shareholder value.

Although EVA is measured in financial analysis, its primary purpose is to shape management behavior. EVA can be used as a performance measure to evaluate an overall company, a division within a company, a location within a division, or an individual manager. By setting goals, EVA can become a motivational tool at various levels of management. EVA can also be used in downsizing decisions.

Perhaps the real key to appreciating EVA lies in its simplicity. Often time's non-financial managers are hard pressed to understand financial tools; EVA can help to facilitate communication thereby enhancing coordination within a company. Managers need to train to recognize the opportunity to strive for an increase in economic value added. Once properly trained, managers can then pinpoint key financial focal concerns germane to decisions

REVIEW OF LITERATURE

For investing in shares, it is crucial for the investors to be sure of the reasonable share price in the determined date and predicting the future changes. In this regard, literatures have produced some variables like return on assets (ROA), book value per share (BVPS), cash flow per share, firm's size, payout ratio, price-earnings (P/E) ratio, earning per share (EPS), dividend per share (DPS), return of equity (ROE) etc. EVA is one of these variables affecting market price of shares that correlates better with stock price than any other measures: by 50% compared with upto 30% for other metrics (**Stern and Shiely, 2004.)**

Pal Singh and Garg (2004) have compared some selected financial variables like ROCE, EPS, ARNW, MVA, Kp, Lp and NPV with EVA. They observed in almost all cases, the positive relationship has been established between the variables under reference. The different correlation matrix tables have approved that EVA is also giving the results in the same direction for the rationale underlying. During the multiple regression analysis in their study, it became apparent that EVA was the single largest and most consistent variable, which has a decisive role in predicting the MVA. Their study concludes that the relationship between EVA and MVA is statistically significant

Sparling and Turvey (2003) revisit the relationship between EVA and shareholder return and reexamine the evidence and issues surrounding the use of EVA as a tool for valuing investments. Using the Stern Stewart Fortune 1000 data, they examine two potential relationships for 33 food companies listed in the database. The correlations found were extremely weak in all instances tested

Loi and Liow (2002) examine the implications of economic value added (EVA) on real estate corporate strategies. The economic profit of 19 Singapore property companies is computed. Overall, according to the results, they suggest that most property companies failed to generate enough periodic income to cover their cost of capital. Hence, the companies appear to be destroying rather than creating corporate wealth. They also highlight some reasons why economic value added (EVA) tends to understate the true economic performance of real estate, both as an investment and as a business unit.

Bardia (2002) wrangled that the concept of EVA is better than the concept of accounting profit as a tool a value creation because it considers the overall cost of capital. In this paper an attempt has been made to analyze the financial performance of Infosys Technologies Ltd. On the basis of traditional parameters like ROCE, ROE, EPS, etc. and the new performance measure EVA.

Ray (2001) analyzes the efficiency of Economic Value Added, the relatively new financial-management tool. This analysis offers a new definition of value, and suggests that the missing link in the EVA process is productivity, generally found to be the engine of all economic growth

Thibadoux, Scheidt, and Jeffords (1999) believe Using economic value added (EVA) as an evaluation tool ensures that when managers make strategic decisions they will do so in their own best interests as well as those of shareholders since positive changes in EVA will be impounded in stock prices. They have recognized the value of using EVA in over 300 major corporations worldwide. They state these techniques can be adopted by any oil and gas company involved in any phase of industry activity, including exploration, supply, processing and distribution.

STATEMENT OF THE PROBLEM

There are various views with respect that whether traditional measures or value based measures influences the share prices. Considering this, it is interesting to examine which of the performance measure has the more influence on the share prices. Question is to be addressed whether there is the relationship between EVA & ROCE with respect to the share price.

OBJECTIVES OF THE STUDY

1. To measure EVA & ROCE for the selected companies.
2. To calculate the relationship between EVA with respect to the share prices movement of the selected companies.
3. To calculate the relationship between ROCE with respect to the share prices movement of the selected companies.
4. To analyze weather the company is creating wealth to shareholders

RESEARCH METHODOLOGY

TYPE OF RESEARCH

This study is a descriptive type of research

SAMPLING DESIGN

The Sampling method used here is Non-Probability Sampling. Companies listed in the stock exchange are considered for the sample because market prices and other information are available. Since BSE SENSEX is a good proxy for the whole market, so companies will be selected from the BSE Index.

Since the large number of companies available in stock market and the calculations would be at larger extent so the sample of 3 companies have been selected of only IT sector. Such a selection is undertaken as these units represented the population in a better way. The companies listed in the stock exchange, and since the financial information is easily available and the market prices are obtained easily

SAMPLE SIZE

Sample includes three IT companies in the stock market (for which relevant data is available), for a period of 5 years starting from FY 2008-09 to FY 2012-13

1. Wipro 2. Infosys. 3. TCS

SOURCES OF DATA

DATA SOURCES

Historical share prices of the sample companies and the index points for the period has been taken from the database of the Capital Market Publishers (India) Ltd, Capital line. Financial statements of the sample companies have also been taken from the same sources.

Secondary Data: This type of data is generally taken from newspapers, magazines, bulletins, reports, journals

- Historical share prices of the sample companies.
- Index values of the BSE.
- Financial Information of the Sample companies.

HYPOTHESIS TESTING

Hypothesis 1

H0: There is **no** significant relationship between EVA and Share prices.

H1: There is significant relationship between EVA and Share prices.

Hypothesis 2

H20: There is **no** significant relationship between ROCE and Share prices.

H21: There is significant relationship between ROCE and Share prices.

TESTING OF HYPOTHESIS

- The hypothesis is tested using multiple regression and T statistic. Regression is the process of predicting one variable from another by statistical means using previous data.
- T statistic is used to test the significance of the regression as a whole. If T calculated is smaller than T tabulated, then the null hypothesis is accepted.
- The hypothesis is tested using multiple regression tool and T statistic. Multiple regressions are a statistical process by which several independent variables to predict one dependant variable.

LIMITATIONS OF THE STUDY

1. The study is limited to three IT companies that are included in the BSE.
2. The research was carried out for only 5 years

METHOD ADOPTED TO CALCULATE EVA

EVA = NOPAT – (WACC x TC)

Where-

1. NOPAT is Net Operating Profit After Taxes
2. WACC is Weighted Average Cost Of Capital (Equity & Debt) Calculated as follows:

WACC = Kd (1-t)* WD + Ke* WE + Kp* WP

W1 is weight of Debt

W2 is weight Of Equity

W3 is weight of Preference

1. **Cost of Debt (Kd):** is the effective cost of Debt, which is calculated by dividing the total interest by the total debt.
2. **Cost of Equity (ke):** is calculated using the Capital Asset Pricing Model developed by Modigliani and Miller.

Ke=Rf+Beta (Rm-Rf)

3. **Cost of Preference (Kp):** is the effective cost of preference, which is calculated by dividing the total Dividend Preference by the total preference capital.
4. **Risk free rate of return (Rf):** is the risk free rate, i.e., the rate of interest for 1-year government securities. These rates are obtained from the website of Reserve Bank of India.
5. **Market Return (Rm):** is the return for the market. It is calculated by using the formula given below for the index values. Rm=Average of return on market for all the 4 years.

Return = Closing index value-opening index value / Opening index value * 100

6. **Beta values:** for all the sample companies for all the 4 years are calculated by finding the slope between log normal of share prices of all the companies and log normal of the index values. Log normal of the values is considered to remove abnormalities if any and convert them into normal distribution.
7. **MVA (Market Value Added)**: A calculation that shows the difference between the market value of a company and the capital contributed by investors (both bondholders and shareholders). In other words, it is the sum of all capital claims held against the company plus the market value of debt and equity. Calculated as: MVA = Companies Market Value – Invested Capital
8. **Return On the Capital Employed (ROCE)** - A ratio that calculates the efficiency and the profitability of the company Capital Investment. Calculated as: ROCE = EBIT / Total Assets – Current Liabilities

RESULTS AND DISCUSSIONS

TABLE – 01: EVA & MARKET PRICES OF A SAMPLE COMPANIES 2008-09 TO 2012-13

Company		2008-09	2009-10	2010-11	2011-12	2012-13
Wipro	Share Price	364.74	313.24	141.62	418.62	492.00
	EVA	6837.59	9677.33	3370.93	3086.68	3294.38
	ROC (%)	87.14	67.40	25.84	23.09	22.93
Infosys	Share price	2242.00	1758.00	1125.00	2606.00	3449.00
	EVA	3353.91	4536.29	4039.53	2472.87	-3783.99
	ROC (%)	37.42	38.65	40.25	34.10	35.74
TCS	Share Prices	625.00	532.55	242.00	750.00	1165.00
	EVA	3805.67	3611.02	4352.47	6641.99	8596.65
	ROC (%)	51.35	43.91	42.44	45.04	44.77

Source: Share price & ROCE from moneycontrol.com, EVA calculated (annexure)

TABLE 02: HYPOTHESIS TESTING – WIPRO -TESTING OF SIGNIFICANT RELATIONSHIP BETWEEN EVA & SHARE PRICES

MODEL SUMMARY

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.112[a]	.013	-.316	3352.97661

a. Predictors: (Constant), EVA

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	432222.131	1	432222.131	.038	.857[a]
	Residual	33727356.513	3	11242452.171		
	Total	34159578.644	4			

a. Predictors: (Constant), EVA

b. Dependent Variable: share price

COEFFICIENTS[A]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant EVA)	6114.38	4640.8		1.318	0.279
	share price	-2.489	12.692	-0.112	-0.196	0.857
a. Dependent Variable: share price						

TESTING OF SIGNIFICANT RELATIONSHIP BETWEEN ROCE & SHARE PRICES

MODEL SUMMARY				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.053[a]	.003	-.330	34.64702
a. Predictors: (Constant), ROCE				

ANOVA[b]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	10.139	1	10.139	0.008	0.933[a]
	Residual	3601.248	3	1200.416		
	Total	3611.386	4			
a. Predictors: (Constant), ROCE b. Dependent Variable: share price						

COEFFICIENTS[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(constant roce)	49.451	47.954		1.031	.378
	Share price	-.012	.131	-0.053	-0.092	.933
a. Dependent Variable: share price						

Interpretation

1. Since the R is showing the value of O.112[a] this indicates that there is low co-relation between EVA with respect to the share prices.
2. Since the Value of R square is 1.3% approximately for EVA, it shows that Share Price is affected by 1.3 per cent by EVA and remaining 98.7 per cent by some other factor.
3. Since the Value of R square is 0.03 per cent approximately for ROCE, it shows that Share Price is affected by 0.03 per cent by ROCE and remaining 99.97 per cent by some other factor.
4. Since value of share price, EVA & ROCE are greater than 5% level of significance; therefore it shows that there is no significant relationship between EVA & Share Price, MVA & Share Price and ROCE & Share Price.

Therefore, Null Hypothesis is accepted and Alternative Hypothesis is rejected.

TABLE 03: HYPOTHESIS TESTING – INFOSYS TECHNOLOGIES LTD -TESTING OF SIGNIFICANT RELATIONSHIP BETWEEN EVA & SHARE PRICES

MODEL SUMMARY				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.866[a]	0.750	0.667	1958.65896
a. Predictors: (Constant), EVA				

ANOVA[b]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	34617792.850	1	34617792.850	9.024	0.057[a]
	Residual	11509034.754	3	3836344.918		
	Total	46126827.604	4			
a. Predictors: (Constant), EVA b. Dependent Variable: share price						

COEFFICIENTS[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(constant eva)	9638.850	2648.160		3.640	0.036
	share price	-3.357	1.118	-0.866	-3.004	0.057
a. Dependent Variable: share price						

TESTING OF SIGNIFICANT RELATIONSHIP BETWEEN ROCE & SHARE PRICES

MODEL SUMMARY

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.829[a]	0.688	0.584	1.55375

a. Predictors: (Constant), ROCE

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	15.947	1	15.947	6.606	0.082[a]
	Residual	7.242	3	2.414		
	Total	23.190	4			

a. Predictors: (Constant), ROCE
b. Dependent Variable: share price

COEFFICIENTS[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(constant roce)	42.327	2.101		20.149	0.000
	share price	-0.002	0.001	-0.829	-2.570	0.082

a. Dependent Variable: share price

Interpretation

1. Since the R is more than 50 per cent for EVA, it shows that there is highly positively co –relation between the EVA with respect to the share prices.
2. Since the Value of R square is 75% approximately for EVA, it shows that Share Price is affected by 75 per cent and remaining 25 per cent by some other factor.
3. Since the Value of R square is 69 per cent approximately for ROCE, it shows that Share Price is affected by 69 per cent by EVA and remaining 31 per cent by some other factor.
4. Since value of share price, EVA & ROCE are greater than 5% level of significance; therefore it shows that there is no significant relationship between EVA & Share Price, MVA & Share Price and ROCE & Share Price.

Therefore, Null Hypothesis is accepted and Alternative Hypothesis is rejected

TABLE 04: HYPOTHESIS TESTING – TCS LTD -TESTING OF SIGNIFICANT RELATIONSHIP BETWEEN EVA & SHARE PRICES

MODEL SUMMARY

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.842[a]	0.708	0.611	1345.16507

a. Predictors: (Constant), EVA

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	13172347.709	1	13172347.709	7.280	00.074[a]
	Residual	5428407.195	3	1809469.065		
	Total	18600754.905	4			

a. Predictors: (Constant), EVA b. Dependent Variable: share price

COEFFICIENTS[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(constant eva)	1833.363	1452.886		1.262	0.296
	share price	5.381	1.994	0.842	2.698	0.074

a. Dependent Variable: share price

TESTING OF SIGNIFICANT RELATIONSHIP BETWEEN ROCE & SHARE PRICES

MODEL SUMMARY				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.187[a]	0.035	-0.287	3.88218
a. Predictors: (Constant), ROCE				

ANOVA[b]						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1.645	1	1.645	0.109	0.763[a]
	Residual	45.214	3	15.071		
	Total	46.859	4			
a. Predictors: (Constant), ROCE b. Dependent Variable: share price						

COEFFICIENTS[a]						
		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(constant roce)	44.241	4.193		10.551	0.002
	share price	0.002	0.006	0.187	0.330	0.763
a. Dependent Variable: share price						

Interpretation

1. Since the R less than 50 per cent for EVA, it shows that there is highly low positive co –relation between the EVA with respect to the share prices.
2. Since the Value of R square is 71 per cent approximately for EVA, it shows that Share Price is affected by 71 per cent and remaining 29 per cent by some other factor.
3. Since the Value of R square is 3.5 per cent approximately for ROCE, it shows that Share Price is affected by 3.5 per cent by ROCE and remaining 96.5 per cent by some other factor.
4. Since value of share price, EVA & ROCE are greater than 5% level of significance; therefore it shows that there is no significant relationship between EVA & Share Price and ROCE & Share Price.

Therefore, Null Hypothesis is accepted and Alternative Hypothesis is rejected

RECOMMENDATIONS & SUGGESTIONS

1. As from the above analysis it is clear that EVA is performance measurement metric as it is number of factors like Capital & Debt employed, have impact on the DPS & EPS of the company. It can be understood that investor not to give importance to EVA for making investment decision.
2. It is understood that the EVA has no impact on the share price, from the investors point of view investment should not be on the basis of EVA.
3. EVA primarily reveals the Debt & Capital employed and shows the risk employed which is measured in terms of WACC at which WACC is positive then the investment decisions should be made.
4. It is also recommended that EVA is better reflecting in performance of the firm so EVA should be employed to measure the performance of the company.

CONCLUSION

The above discussion explains the importance of using EVA as a tool for measuring financial performance. The study reveals that there is no strong pattern of EVA of selected companies during the period. The wealth created by most companies in year 2008-09 and 2012-13 is decreasing because of higher cost of capital than that of other years.

The central idea of EVA is subtracting the cost of capital from the firm's profits to measure, as the term indicates, the economic additional value produced by the firm to its owners over the weighted cost of the capital employed. This raised the question of the effect of the debt and equity cost components on the behavior of EVA. It was observed that the cost of debt has little effect on the EVA's. On the other hand, as is expected, EVA behaves in a linear fashion with respect to the cost of equity. It was also observed that even EVA is much more unstable than the other performance measure.

It is also observed that there is no strong relation between EVA and market prices of the companies. Thus, it can be understood that investor do not give so importance to EVA for its investment decision. Extensive study is required to establish the influence of other factors like non-fund based income, spread, deployment of funds, market price, etc. It is also expected that the usage of EVA as a financial performance tool will also be more in India.

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