

EVA REPORTING: ANALYSIS OF ITS DISCLOSURE PRACTICES IN INDIAN CORPORATE SECTOR

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ABSTRACT

Keeping in mind the increasing popularity of EVA and its superiority over traditional performance measures, many scholars and academicians have given much more credence over the EVA disclosure practices and suggested the companies around the globe to disclose EVA related information in their Financial Statement. Some companies have already made EVA as a part of their Annual Report. But due to its subjective nature some companies are still hesitant to adopt it as a part of financial performance measures. Thus, for inspecting the gap between 'theory' and 'practice' a modest attempt has been made here to scan the extent to which EVA disclosure is practiced by the Indian Corporate sector. For that purpose, top 500 Indian companies selected from the Business Today's Survey for recognizing India's most valuable private sector companies (Year 2007 Rankings) have been considered as sample by applying purposive sampling procedure. Annual reports of sampled companies for the period of 16 years i.e. from 2001 to 2016 have been explored carefully to observe the behavior of their EVA disclosure practice. In depth exploration of selected sample noticeably portray that a very less number of Indian companies are interested in disclosing EVA related information through their Annual Report. Out of the sample of 500 Indian companies belonging to diverse industry, only 35 companies purposely revealed the EVA related information (either in the single year or in more than one year) through different medium of disclosure.

Keywords: Economic Value Added (EVA), Extent of Disclosure, Medium of Disclosure, Application of EVA

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INTRODUCTION

Traditional Accounting-Based Financial Performance measures such as Return on Assets (ROA), Return on Capital Employed (ROCE), Return on Equity (ROE) and Earning per Shares (EPS) etc. have been criticized on various ground such as non-consideration of capital charges, backward looking and fails to provide an integrated or holistic view of future performance etc. To overcome the problems associated with traditional accounting-based financial performance measures, several scholars and consulting firms have approached towards alternative measures termed as “modern value based performance measures” to fulfill the ultimate and paramount objective of companies which is shareholders wealth maximization and to fit the strategy that would meet the challenges of modern complicated business environment.

In the late 1980s and early 1990s a number of value based performance measures had emerged from the discipline of strategic management. The most common value based performance measures were: (a) Shareholder Value Added (SVA) which is proposed by Rappaport and LEK / Alcar Consulting group (Rappaport, 1986), (b) Economic Value Added (EVA) which is a registered trademark of Stern Stewart & Co. (Stewart 1991) (c) Market Value Added (MVA) which is a creation of Stern Stewart & Co. (Stewart 1991) (d) Cash Value Added (CVA) which is the invention of Boston Consulting Group (BCG) and the Swedes Ottoson and Weissenrieder (Ottoson and Weissenrieder, 1996). (e) Cash flow return on investment (CFROI) which is the product of Boston Consulting Group (BCG) and HOLT Value Associates (Black, Wright and Bachman, 1998). Shareholder wealth maximization, a key corporate objective of many companies, is accomplished when the return from capital employed in the business exceed the cost of acquiring funds. Value-based performance measures fuel the business proceedings towards creation of shareholders wealth. Value based approach management should first and foremost consider the interest of shareholders in business action. Value based management approach places the concerns of shareholders above others stakeholders and affirms that organization’s strategy are stand-in for creation and maximization of wealth for its shareholders.

Modern value-based financial performance measures are offered by their proponents as a major improvement over the traditional performance measures as value based performance measures are mostly linked with creation of shareholders wealth. These measures are also an endeavor to trounce the problems associated with the traditional measures by removing the accounting distortions contained in the financial statements. Among the various modern value- based performance measures, the most reliable measure of corporate performance is Economic Value Added (EVA) which is coined and popularized by Stern Stewart & Co.

in 1991. Peter Drucker claimed that he talked about EVA in 1964 in his book, "Managing for Results". If we go into the flashback, the foundation of EVA can be traced to Hamilton (1777) and Marshall (1890) who enlightened that for companies to create wealth just earning profit will not be enough, they must earn sufficient profit to cover its cost of capital. As early as the 1920's General Motors applied this concept and in the 1950's General Electric labeled it "residual income" and applied it as a performance measure to their decentralized divisions (Stewart, 1994). Though, the validity of residual income concept as a performance measurement system could not generate much interest among the business houses up to early 1990's but the concept became very popular when Stewart strongly advocated a modified concept of 'economic measurement of income' in the name of EVA identifying the limitations of the concept 'accounting measurement of income'.

EVA is a measure of a company's financial performance which is calculated by subtracting capital charges from its adjusted net operating profit. Economic Value Added or EVA is a performance metric used to estimate the true economic profit generated by a firm. EVA is important because it serves as an indicator and reflector of management performance. Positive value of EVA creates the shareholders' value whereas a negative EVA indicates that the business firm did not make enough profit to cover the capital charges. EVA measures whether the operating profit is sufficient enough to cover the cost of capital employed. The key point of the EVA is that value is created when the rate of return is more than the rate of total capital cost, which means the cost of capital, covers the risk of investment (Biddle et al., 1997). Mathematically,

$$\text{EVA}_t = (\text{ROIC}_t - \text{WACC}_t) \times \text{CE}_{t-1} \text{ "Or" } \text{EVA}_t = \text{NOPAT}_t - (\text{WACC}_t \times \text{CE}_{t-1})$$

Where, EVA is Economic Value Added in year t; ROIC_t is return on invested capital in year t which is also defined as $\text{NOPAT}_t / \text{CE}_{t-1}$; NOPAT_t is net operating profit before interest after tax in year t ; CE is the total capital employed in year t-1; WACC is weighted average cost of capital in year t.

EVA as value based performance measure tool is the financial performance measure that comes closer than any other to capturing the true economic profit of the concern. Stewart (1994) states "EVA is almost fifty percent better than its closest accounting-based competitor (including EPS, ROE and ROI) in explaining changes in shareholder wealth". EVA has emerged the most accurate measures of shareholders' wealth around the globe. It has gained its recognition as a perfect performance measure mostly link to the creation of shareholder wealth over time. If the EVA is positive, the company creates shareholders wealth while negative EVA indicates that shareholders wealth is destroyed (Stewart, 1991). Peter F. Drucker has precisely

acknowledged that “EVA is based on something we have known for a long time – what we call it profit, the money left to service equity, is usually not profit, at all. Until a business returns a profit greater than its overall cost of capital, it operates at a loss.” EVA is best alternative of accounting concept of business income. EVA is a new technique of ascertaining business income which is based on the economic concept of income (Pattanayak and Mukherjee, 1998). McConville (1994) claims that “EVA can help shape virtually every corporate decision from acquisitions to employee compensation.”

Theoretically, it has become almost a consensus that EVA is superior to other measures of performance as it considers overall cost of capital making EVA as a measure of pure economic profit. It is evident that many scholars and academicians have given much more credence over EVA keeping in mind its superiority over traditional performance measures and suggested the companies around the globe to disclose EVA related information in their Financial Statement. Initially some Indian companies have shown their enthusiasm toward disclosing of EVA related information but this practice of disclosing EVA related information in Annual Report by Indian companies is constantly shrinking specially since recent global financial Crisis.

In consequence of above problem statement, some research questions may come into sight:

- At what extent Indian companies are disclosing EVA related information through their Annual Report?
- In which direction the trend of EVA reporting is stirring?
- Which medium of communication companies are implementing to disclose the EVA information?
- What are the areas of decision making where EVA is applied?

Thus, a modest effort has been made to scan and observe the practice of disclosing information related to EVA by Indian companies in their annual report .The structure of the paper is as follows: Section 2 takes up the summary of literature review of the earlier studies in this field, Section 3 highlights the objectives of the study, Section 4 depicts the sample description and database, Section 5 puts focus on the result and discussion of findings and finally, Section 6 is concerned with the conclusion of the research.

LITERATURE REVIEW

Reddy and Satish (2001) through their study titled “ Economic value added Reporting in India” attempted to analyze EVA reporting practice of Indian Companies by examine the Annual report of 125 Public Limited Companies for a period of five

years from 1995-1996 to 1999-2000. They observed that Out of 125 companies annual reports studied, only 12 companies have disclosed EVA. Out of 12 EVA reporting companies 9 have disclosed the formula, which they have adopted in calculating EVA. They added that only one company has disclosed EVA data for a period of the last 10 years. 8 companies have disclosed EVA data for a period of 5 years, 2 companies have disclosed EVA data for a period of 2 years, and only one company has disclosed EVA data for a period of one year. All 12 companies have disclosed EVA in the form of tables but only 4 companies have disclosed EVA in the form of graphs, in addition to tables. The presentation of EVA data is different from company to company. **Kaur and Narang (2010)** carried out a similar research where they studied Annual Reports of India's largest most valuable 500 Indian companies selected from the Business Today's Survey for identifying India's most valuable private sector companies (year 2005 rankings) from 2004 to 2008 to "examine the extent of Economic Value Added (EVA) disclosing practices prevalent in Indian corporate sector." They also recognized the associated industry of sampled company, their preferred medium of EVA disclosure, areas of EVA applications and extent of EVA-related information disclosed by the EVA reporting companies. The researchers stated that just 37 companies (7.4 per cent of the sample) specifically mentioned the application of EVA metric in their Annual Report. From the perspective of Indian companies, they observed that around 35% of the companies (out of 37 companies) prefer to make a separate section in their annual reports for disclosing their EVA information. Their study further explores that two most common uses of EVA in Indian companies are performance measurement and performance evaluation (19 companies out of 37; 51%) and measurement of shareholder value enhancement (18 companies out of 37, 49%). They conclude that there exist a significant inconsistencies and irregularities in the measurement as well disclosure of EVA related information. **Jain, R. K., and Jain, A. (2014)** makes an attempt to evaluate the extent to which EVA disclosure is practiced by the Indian Corporate sector. This study was based on the information available for the top Indian corporate houses in Manufacturing, Banking and IT sector, amongst the ET500. The study was conducted for the financial year 2012. The study of 256 companies of Manufacturing, Banking and IT sector amongst ET500 companies found that only 13 companies report EVA as a corporate performance measure in their annual reports. Out of total 188 manufacturing companies only 9 companies such as, Larsen Toubro Ltd., Hero Motocorp Ltd., Dr. Reddy Lab. Ltd., Hindustan Unilever Limited, Godrej Consumer Products Ltd., Associated Cement Company Limited, etc. have disclosed EVA. Only 2 companies showed EVA as a percentage of capital employed. In banking sector, Out of 38 companies only J&K Bank presented EVA in their annual report. As far as IT sector is concerned, only 3 companies (Infosys, Tata Consultancy Services,

OFSS) out of total 30 companies declared EVA information. Out of these three companies, Infosys is the only one which showed EVA as a percentage of capital employed. They concluded that they observed a casual approach of the Indian companies in reporting EVA performance in their annual reports.

Following the lead shown by the Kaur and Narang, in their study **Bhasin(2017)** has also extensively surveyed the EVA disclosures in the Annual Reports made by the same sample group of 500 corporations (India's largest most valuable 500 Indian companies selected from the Business Today's Survey for identifying India's most valuable private sector companies (year 2005 rankings) from India for the year 2010-11. His study revealed that out of 500 Indian companies, there were 17 companies, which specifically mentioned about the use of EVA as a measure of corporate financial performance and decision making in the financial year 2010-11. It also reveals that firms which have adopted EVA during 2010-11 are not concentrated in one industry group; they belong to diverse industrial groups. Out of the 17 EVA disclosing companies during 2010-11, the largest number, 5 companies (29.4%), belong to the computer software and hardware industry. From the perspective of Indian EVA disclosing companies during 2010-11, it is observed that 8 companies prefer to make a "Separate Section" (EVA statement, ratios, charts etc.) in their Annual Reports for disclosing their EVA information. Such companies include Infosys Technologies, Hindustan Uniliver, Hero Honda Motors, Godrej Consumer Products, Balrampur Chini Mills, Pidilite Industries, Rolta India, and Nucleus Software Exports Ltd. Several companies, however, are using more than one medium to disclose EVA-related information in their Annual Reports. EVA is mostly used for business/financial performance measurement. Out of 17 mentioned EVA measure being applied in Incentive Payments and Equitable Reward System of the Companies. They concluded that majority of the companies are still not willing to instate the EVA technique for evaluating their financial performance because of certain innate difficulties associated with the computation. They further added that Indian companies also avoid EVA disclosures due to its complex methodology.

It is apparent from the literature survey that a very less number of studies have been taken on in India to scan the disclosure practices adopted by Indian Corporate Sector to report EVA. Thus, the present study aims to explore the disclosure practices of EVA related information by Indian company on various criteria such as medium of EVA disclosure, Application of EVA etc.

OBJECTIVE OF THE STUDY

This study has the following specific objectives-

1. To examine the extent to which sampled Indian companies are disclosing EVA related information through their Annual Report.
2. To point out the trend of EVA reporting by sampled Indian companies.
3. To trace the various medium of communication sampled Indian companies are adopting to disclose the EVA information.
4. To assess the application of EVA related information by sampled Indian companies.

SAMPLE DESCRIPTION AND DATABASE

The study is entirely based on secondary data taken out from the Annual Report of companies under study, and also from secondary databank and special publications. Top 500 Indian companies selected from the Business Today's Survey for recognizing India's most valuable private sector companies (Year 2007 Rankings) have been considered here as sample by applying purposive sampling procedure for carrying out the present study. Annual reports of sampled companies for the period of 16 years i.e. from 2001 to 2016 have been explored carefully to observe the behavior of their EVA disclosure practice.

ANALYSIS OF RESULTS AND DISCUSSION OF FINDINGS

In depth exploration of selected sample noticeably portray that a very less number of Indian companies are interested in disclosing EVA related information through their Annual Report. Out of the sample of 500 Indian companies belonging to diverse industry, only 35 companies purposely revealed the EVA related information through different medium of disclosure. Appraisal of practices of disclosing EVA related information of Indian corporate sector can be judged through following sub-sections:

Indian Companies disclosing EVA related information during the period from 2001 to 2016

In Table 1 a list of EVA-disclosing companies has been produced by the thorough inspection of each company's Annual Reports for all the sixteen years. From the list it can be observed that six companies viz., Hindustan Unilever Ltd, Hero Motocorp Ltd, Marico Ltd, Godrej Consumer Product Ltd, Godrej Industries Ltd and Pidilite Industries Ltd is disclosing the

EVA related information for all the sixteen years. Two companies viz., *Sundram Fasteners Ltd and Infosys Technologies Ltd* are disclosing twelve years of EVA related information during the period of study. Five companies viz., *Larsen & Toubro Ltd, Balrampur Chini Mills Ltd, Emami Ltd, Unichem Laboratories Ltd and ACC Ltd* are disclosing eleven years of EVA related information during the period of study. Two companies viz., *Tata Consultancy Services Ltd and Crompton Greaves Ltd* are disclosing nine years of EVA related information during the period of study. Three

companies viz., *Nucleus Software Export Ltd, Dr. Reddy's Laboratories Ltd and Satyam Computers Ltd* are disclosing eight years of EVA related information during the period of study. Three companies viz., *Piramal Healthcare Ltd, Tata Steel Ltd and Orchid Chemicals & Pharma Ltd* are disclosing seven years of EVA related information during the period of study. Two companies viz., *Rolta India Ltd and Mosarbare Ltd* are disclosing six years of EVA related information during the period of study. One company viz., *Sasken Communication Tech Ltd* is disclosing five years of EVA related information during the period of study. Three companies viz., *Navneet Publication, Cadila Healthcare Ltd and JB Chemicals & Pharmaceuticals Ltd* are disclosing four years of EVA related information during the period of study. One company viz., *Jammu & Kashmir Bank Ltd* is disclosing three years of EVA related information during the period of study. Four companies viz., *Laxmi Machine Works Ltd, Ispat Industries Ltd, Finolex Industries Ltd and Thomas Cook India Ltd* are disclosing two years of EVA related information during the period of study. Three companies viz., *ICSA (India) Ltd, Igate Global Solution Ltd and Shasun Chemicals & Drugs Ltd* are disclosing one year of EVA related information during the period of study.

Year-wise scan of EVA disclosure in Figure 1 exhibits that in 2001 a total of 17 companies are disclosing EVA related information in their Annual Report. An increasing trend may be observed up to the year 2007 in which a total of 30 companies are exposing EVA information in their Annual Report. But from the year 2008 a declining trend of presenting EVA information has been started and continued up to 2016. In the year 2016 only seven companies are showing data related to EVA. Most of the companies have discontinued the depiction of EVA information from their Annual Report in the year 2016 in comparison to the year 2007.

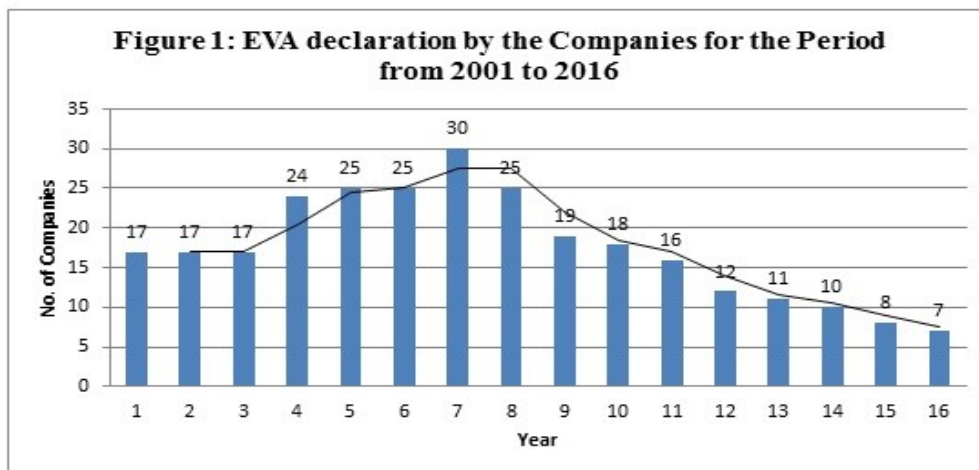
INDUSTRY-WISE EXTENT OF EVA REPORTING PRACTICES IN INDIAN COMPANIES

In Table 2 information related to the name of EVA disclosing company, their associated industry, medium of EVA disclosure and EVA applications for each such company has been provided. It reveals that firms which have adopted EVA (either in one or more than one years of study period) are not restricted in one industry group. Out of 35 companies, the highest number i.e. 8 companies (23%) viz., *Tata Consultancy Services Ltd., Infosys Technologies Ltd., Satyam Computer Services Ltd, Nucleus Software Export Ltd, Rolta India Ltd, ICSA (India) Ltd and Igate Global Solution Ltd* belong to Computer Software industry. The next highest number i.e. 7 companies (20%) viz., *Unichem Laboratories Ltd, Piramal Healthcare Ltd, Dr. Reddy's Laboratories Ltd, Cadila Healthcare Ltd, Orchid Chemicals & Pharmaceuticals Ltd, JB Chemicals & Pharmaceuticals Ltd and Shasun Chemicals & Drugs Ltd* belong to

Table 1: EVA declaration by the Companies for the Period from 2001 to 2016 along their position in Business Today's survey, 2007 ranking

Sl.No	Company Name	BT Rank	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	
1	Hindustan Unilever Ltd	13	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
2	Hero Motocorp Ltd	46	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
3	Marico Ltd	143	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
4	Godrej Consumer Product Ltd	153	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
5	Godrej Industries Ltd	95	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
6	Pidilite Industries Ltd	149	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
7	Sundaram Fasteners Ltd	309	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	
8	Larsen & Toubro Ltd	9	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	
9	Nucleus Software Export Ltd	280	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	
10	Tata Consultancy Services Ltd	3	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	
11	Infosys Technologies Ltd	4	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
12	Balrampur Chini Mills Ltd	241	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
13	Rolla India Ltd	135	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	
14	Epson Ltd	304	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
15	Unichem Laboratories Ltd	390	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
16	Piramal Healthcare Ltd	93	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	
17	Nanaset Publication	480	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	
18	Crompton Greaves Ltd	64	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
19	Dr Reddy's Laboratories Ltd	56	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
20	Laxmi Machine Works Ltd	144	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	
21	Jammu & Kashmir Bank Ltd	150	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	
22	Igat Industries Ltd	221	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	
23	Satyam Computers Ltd	19	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
24	ICSA (India) Ltd	370	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	
25	Tata Steel Ltd	17	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
26	Cadila Healthcare Ltd	120	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	
27	Orchid Chem & Pharma Ltd	262	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
28	JB Chem & Pharma Ltd	466	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	
29	Igate Global Solution Ltd	378	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	
30	Shasun Chemicals & Drugs Ltd	493	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	
31	Mosabes Ltd	110	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
32	Finolex Industries Ltd	372	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	
33	Sasken ComanTech Ltd	307	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
34	Thomas Cook India Ltd	368	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	
35	ACC Ltd	39	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	×	
Total			17	17	17	17	24	25	25	30	25	19	18	16	12	11	10	08	07

Sources: Compiled from Annual Reports of the EVA Reporting Companies for the period from 2001 to 2016



Pharmaceuticals Industry followed by 4 companies (12%) viz., Hindustan Unilever Ltd, Marico Ltd, Godrej Consumer Product Ltd and Emami Ltd associated with Personal Product Industry. In addition to that, each of the three industries namely Iron and Steel industry, Automobile Industry and Chemicals industry, include two EVA-Reporting companies. The remaining 10 companies belong to different industries.

Table 2: EVA Reporting Companies along with their respective Industry, Medium of EVA Disclosure and EVA Applications

NO.	Company Name	Industry	Medium of Disclosure	EVA Applications
1	Hindustan Unilever Ltd	Personal Products	Financials- Additional information to Shareholders', Directors' Report and Performance Trends	Business Performance Evaluation & Target Setting
2	Hero Motocorp Ltd	Automobile	Separate Section & Financial Highlights	Financial Performance Evaluation and Shareholders' Value Enhancement
3	Marico Ltd	Personal Products	Performance at a glance and 10-Years Financial Highlights	Financial Performance Evaluation
4	Godrej Consumer Product Ltd	Personal Products	Management Discussion and Analysis & Performance Analysis	Shareholders' Value Enhancement, Policy making and Incentive Plans
5	Godrej Industries Ltd	Chemical	Corporate Governance Report and Notes of Accounts	Shareholders' Value measure, Target Setting and Performance Linked Variable Remuneration
6	Pidilite Industries Ltd	Chemical	Management Discussion and Analysis	Performance Measurement and Performance Evaluation
7	Sundram Fasteners Ltd	Automobile	Management Discussion and Analysis	Financial Performance Measurement
8	Larsen & Toubro Ltd	Construction & Engineering	Management Discussion and Analysis	Performance Enhancement, Value Creation, Equitable Reward System
9	Nucleus Software Export Ltd	Computer Software	Separate Section	Shareholder Value Enhancement

10	Tata Consultancy Services Ltd	Computer Software	Management Discussion & Analysis and Corporate Governance Report	EVA based Incentive Pay Policy
11	Infosys Technologies Ltd	Computer Software	Additional Information to Shareholders ,Management Discussion and Analysis & Financial Highlights	Shareholder Value Enhancement
12	Balrampur Chini Mills Ltd	Sugar	Separate Section	Shareholder Value Enhancement
13	Rolta India Ltd	Computer Software	Separate Section	Performance Measurement and Performance Evaluation
14	Emami Ltd	Personal Products	Separate Section	Business Performance Evaluation & Target Setting
15	Unichem Laboratories Ltd	Pharmaceuticals	5-Year Financial Highlights	Financial Performance Measurement
16	Piramal Healthcare Ltd	Pharmaceuticals	Management Discussion & Analysis and Fin. Highlights	Financial Performance Measurement
17	Navneet Publication	Books and Cards	Financial Highlights	Shareholder Value Enhancement
18	Crompton Greaves Ltd	Electrical Equipments	Separate Section	Value Measurement tool and Linked with Compensation
19	Dr. Reddy's Laboratories Ltd	Pharmaceuticals	Additional Information to Shareholders	Shareholder Value Enhancement
20	Laxmi Machine Works Ltd	Textile	Separate Section	Shareholder Value Enhancement
21	Jammu & Kashmir Bank Ltd	Banking Services	Management Discussion and Analysis	Performance Measurement and Performance Evaluation
22	Ispat Industries Ltd	Iron and Steel	Management Discussion and Analysis	Performance Measure and Performance Linked Variable Remuneration
23	Satyam Computers Ltd	Computer Software	Additional Information to Shareholders	Shareholder Value Enhancement
24	ICSA (India) Ltd	Computer Software	Separate Section	Shareholder Value Enhancement
25	Tata Steel Ltd	Iron and Steel	Financial Highlights	Performance Measurement and Performance Evaluation & Cap. Expenditure Evaluation
26	Cadila Healthcare Ltd	Pharmaceuticals	Financial Highlights	Shareholder Value Enhancement
27	Orchid Chemicals & Pharmaceuticals Ltd	Pharmaceuticals	Separate Section	Performance Measurement and Performance Evaluation
28	JB Chemicals & Pharmaceuticals Ltd	Pharmaceuticals	Separate Section	Shareholder Value Enhancement
29	Igate Global Solution Ltd	Computer Software	Separate Section	Shareholder Value Enhancement
30	Shasun Chemicals & Drugs Ltd	Pharmaceuticals	Separate Section	Financial Performance Measurement
31	Mosarbare Ltd	Computer Hardware	Management Discussion & Analysis and Directors' Report	Performance Measurement and Performance Evaluation
32	Finolex Industries Ltd	Plastic	Management Discussion & Analysis and Directors' Report	Shareholder Value Enhancement
33	Sasken Communication Tech Ltd	Computer Software	Financial Statement in compliance with Indian GAAP	Performance Measurement and Compensation
34	Thomas Cook India Ltd	Tourism	Separate Section	Shareholder Value Measurement
35	ACC Ltd	Cement	Separate Section	Performance Measurement and Performance Evaluation

Sources: Compiled from Annual Reports of the EVA Reporting Companies for the period from 2001 to 2016

MEDIUM OF EVA DISCLOSURE

In Table 3, various medium and sources through which companies are divulging their EVA information has been provided.

Table 3: Medium of Disclosure Used for EVA Reporting for the Period 2001-2016

Medium of Disclosure Used	Number of Companies	Percentage
Separate Section	14	40%
Management Discussions & Analysis	12	34%
Financial Performance Highlights	9	26%
Additional Information to Shareholders	4	11%
Director's Report	3	9%
Corporate Governance Report	2	6%
Notes of Accounts	1	3%
Statements in Compliance with Indian GAAP	1	3%
More than one medium	10	29%

Sources: Compiled from Annual Reports of the EVA Reporting Companies for the period from 2001 to 2016

It can be observed that companies are using various medium to disclose EVA information. It can be noted that 40% of the EVA reporting companies are presenting their EVA information by making a separate section in their annual reports. Around 34 % of companies prefer the medium of Management Discussions & Analysis whereas 26 % companies are using the Financial Performance Highlights medium to disclose their EVA information. Moreover, Indian companies are using some other medium viz., Additional Information to Shareholders (4% users), Director's Report (3% users), Corporate Governance Report (2% users), Notes to Accounts (1% user) and Statements in Compliance with Indian GAAP (1% user) for the disclosure of EVA information. There are ten companies (around 29% users) that use more than one medium to disclose EVA-related information in their annual reports.

Areas of EVA-Application

In Table 4, various areas of EVA-Application have been summarized to get a synopsis of the uses of EVA information by Indian Companies.

Table 4: Areas of EVA-Application in Indian Companies for the Period 2001-2016

Areas of EVA-Application	Number of Companies	Percentage
Performance Measurement & Performance Evaluation	19	54%
Shareholder Value Enhancement	17	49%
Remuneration & Incentive Payments System	7	20%
Setting Targets	3	9%
Policy Making	1	3%
Capital Expenditure Evaluation	1	3%
More than one Application	9	26%

Sources: Compiled from Annual Reports of the EVA Reporting Companies for the period from 2001 to 2016

It can be seen that most frequent use of EVA information among Indian companies are performance measurement & performance evaluation and Shareholder value enhancement. 19 companies (around 54%) prefer the use of EVA information for measuring and evaluating the performance of company. 17 companies (around 49%) apply the EVA information for the value enhancement Shareholders. 7 companies (around 20%) mentioned EVA measure being applied in Remuneration & Incentive Payments System of the companies. Just 3 companies are showing their interest in disclosing EVA information for setting their target. Godrej Consumer Product Ltd is only company that is using the EVA information in making their policy. It should be noted that Tata Steel Ltd evaluates their capital expenditure through EVA information. However, there are nine companies (around 29% users) those are using EVA-related information for multiple applications and disclosing these data in their annual reports.

Company-Wise EVA-Disclosures in Indian Companies

In Table 5, Company-Wise Extent and various form of EVA disclosure related information viz., EVA (in Rs.) and EVA as percentage of capital employed and EVA Statement by Indian Companies for the period 2001-2016 has been publicized. It also divulges the number of years (out of sixteen years of study period), for which each company reported EVA figures. In table 6, It has been seen that 32 companies (91% users) are showing the absolute value of EVA (in Rs.) followed by 26 companies (74% of users) those are showing EVA-related information in the form of EVA Statement. 18 companies are showing EVA ratio (mostly, EVA divided by Capital Employed) in their Annual Report. As per the suggestion of Stewart (1994), Cost of Equity Capital should be calculated on the basis of CAPM methodology in which risk for individual companies is assessed through "Beta". Thus an attempt has also been made to explore that which EVA reporting companies calculated their cost of equity capital as per CAPM methodology. The study reveals that 20 companies (51% of users) have used CAPM to get there their cost of equity for estimating EVA.

Table 5: Extent of EVA Disclosure by Indian Companies for the Period 2001-2016

Items	Reporting		Non-Reporting	
	No. of Companies	%	No. of Companies	%
EVA (in Rs)	32	91%	3	09%
EVA Ratio	18	51%	17	49%
EVA Statement	26	74%	09	26%
CAPM based Cost of Equity Calculation	20	57%	15	43%

Sources: Compiled from Annual Reports of the EVA Reporting Companies for the period from 2001 to 2016

Table 6: Company-Wise Extent and form of disclosing EVA related information by Indian Companies for the period from 2001-2016

Sl. NO.	Company Name	Years of EVA Reporting since 2001	EVA (in Rs.)	EVA Ratio(s)	EVA Statemen t	CAPM based Ke
1	Hindustan Unilever Ltd	16 Years (2001-2016)	✓	✓	✓	✓
2	Hero Motocorp Ltd	16 Years (2001-2016)	✓	✓	✓	✓
3	Marico Ltd	16 Years (2001-2016)	✓	✓	✓	×
4	Godrej Consumer Product Ltd	16 Years (2001-2016)	✓	×	✓	✓
5	Godrej Industries Ltd	16 Years (2001-2016)	×	×	×	×
6	Pidilite Industries Ltd	16 Years (2001-2016)	✓	✓	✓	×
7	Sundram Fasteners Ltd	12 Years (2004-2015)	✓	✓	×	×
8	Larsen & Toubro Ltd	11 Years (2004-2014)	✓	×	×	×
9	Nucleus Software Export Ltd	08 Years (2007-2014)	✓	✓	✓	✓
10	Tata Consultancy Services Ltd	09 Years (2005-2013)	✓	✓	×	×
11	Infosys Technologies Ltd	12 Years (2001-2012)	✓	✓	✓	✓
12	Balrampur Chini Mills Ltd	11 Years (2001-2011)	✓	×	✓	✓
13	Rolta India Ltd	06 Years (2006-2011)	✓	×	✓	✓
14	Emami Ltd	11 Years (2001-2011)	✓	×	✓	×
15	Unichem Laboratories Ltd	11 Years (2001-2011)	✓	✓	×	×
16	Piramal Healthcare Ltd	07 Years (2004-2010)	✓	×	✓	×
17	Navneet Publication	04 Years (2007-2010)	✓	✓	✓	×
18	Crompton Greaves Ltd	09 Years (2001-2009)	✓	✓	✓	×
19	Dr. Reddy's Laboratories Ltd	08 Years (2001-2008)	✓	×	✓	✓
20	Laxmi Machine Works Ltd	02 Years (2007-2008)	✓	×	✓	✓
21	Jammu & Kashmir Bank Ltd	03 Years (2006-2008)	×	✓	×	×
22	Ispat Industries Ltd	02 Years (2007-2008)	×	×	×	×
23	Satyam Computers Ltd	08 Years (2001-2008)	✓	×	✓	✓
24	ICSA (India) Ltd	01 Year (2008)	✓	×	×	×
25	Tata Steel Ltd	07 Years (2001-2007)	✓	✓	×	✓
26	Cadila Healthcare Ltd	04 Years (2004-2007)	✓	×	✓	✓
27	Orchid Chemicals & Pharma Ltd	07 Years (2001-2007)	✓	✓	✓	✓
28	JB Chemicals & Pharma Ltd	04 Years (2004-2007)	✓	×	✓	✓
29	Igate Global Solution Ltd	01 Year (2007)	✓	✓	✓	✓
30	Shasun Chemicals & Drugs Ltd	01 Year (2007)	✓	×	✓	×
31	Mosarbare Ltd	06 Years (2001-2006)	✓	✓	✓	✓
32	Finolex Industries Ltd	02 Years (2004-2005)	✓	×	✓	✓
33	Sasken Communication Tech Ltd	05 Years (2001-2005)	✓	✓	✓	✓
34	Thomas Cook India Ltd	02 Years (2004-2005)	✓	×	✓	✓
35	ACC Ltd	11 Years (2006-2016)	✓	✓	✓	✓
Total			32	18	26	20

Sources: Compiled from Annual Reports of the EVA Reporting Companies for the period from 2001 to 2016

INDUSTRY-WISE AS WELL AS YEAR-WISE CLASSIFICATION OF EVA REPORTING COMPANIES

In table 7, Industry-Wise as well as Year-Wise classification of EVA reporting companies for each year under the study period have been illustrated. 35 Companies related to major 16 industries are willingly presenting the data related to EVA in their

Table 7: Industry-wise as well as Year-wise Classification of EVA Reporting Companies for the year from 2001-2016

Industry	2001		2002		2003		2004		2005		2006		2007		2008		2009		2010		2011		2012		2013		2014		2015		2016		
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	
Computer Software	3	18	3	18	3	18	3	12	4	16	4	16	6	20	6	24	4	20	4	22	4	25	3	25	2	18	1	10	0	0	0	0	
Pharmaceutical	3	18	3	18	3	18	6	25	6	24	6	24	7	24	3	12	2	10	2	12	1	6	0	0	0	0	0	0	0	0	0	0	
Personal Product	4	24	4	24	4	24	4	17	4	16	4	16	4	13	4	16	4	20	4	22	4	25	3	25	3	28	3	30	3	38	3	43	
Iron & Steel	1	6	1	6	1	6	1	4	1	4	1	4	2	7	1	4	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Automobile	1	6	1	6	1	6	2	9	2	8	2	8	2	7	2	8	2	10	2	12	2	13	2	17	2	18	2	20	2	25	1	14	
Chemical	2	12	2	12	2	12	2	9	2	8	2	8	2	7	2	8	2	10	2	12	2	13	2	17	2	18	2	20	2	25	2	29	
Construction/Engineering	0	0	0	0	0	0	1	4	1	4	1	4	1	3	1	4	1	5	1	5	1	6	1	8	1	9	1	10	0	0	0	0	
Sugar	1	6	1	6	1	6	1	4	1	4	1	4	1	3	1	4	1	5	1	5	1	6	0	0	0	0	0	0	0	0	0	0	
Books & Cards	0	0	0	0	0	0	0	0	0	0	0	0	1	3	1	4	1	5	1	5	0	0	0	0	0	0	0	0	0	0	0	0	0
Electrical Equipment	1	5	1	5	1	5	1	4	1	4	1	4	1	3	1	4	1	5	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Textile	0	0	0	0	0	0	0	0	0	0	0	0	1	3	1	4	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Banking Service	0	0	0	0	0	0	0	0	0	0	1	4	1	3	1	4	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Computer Hardware	1	5	1	5	1	5	1	4	1	4	1	4	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Plastic	0	0	0	0	0	0	1	4	1	4	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Tourism	0	0	0	0	0	0	1	4	1	4	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cement	0	0	0	0	0	0	0	0	0	0	1	4	1	3	1	4	1	5	1	5	1	6	1	8	1	9	1	10	1	12	1	14	
Total	17	17	17	24	25	25	25	30	25	25	30	25	30	25	25	19	18	18	16	16	12	11	10	08	07	07	07	07	07	07	07	07	

Annual Report. It can be observed that participation of companies in disclosing EVA information throughout the year relatively steady in case of Personal Product. From 2001 to 2016 three major companies associated to personal product industry viz., Hindustan Unilever Ltd, Marico Ltd and Godrej Consumer Product Ltd are continuously disclosing the EVA information. One automobile company and two chemical companies are also disclosing the EVA information during the study period. In 2007 and 2008 eight EVA reporting companies associated with computer software industry are reporting the EVA but unfortunately from the year 2015 all computer software companies permanently discontinued the EVA disclosure practices. Pharmaceutical companies initially emphasized upon the EVA disclosure practice but from 2012 they started to ignore the EVA metric and permanently stopped the chapter of EVA disclosure. From 2010, companies linked with seven major industries viz., Electrical Equipment, Textile, Banking Services, Computer Hardware, Plastic and Tourism have terminated the advantages of EVA.

CONCLUSION

In the present paper an effort has been made to make a comprehensive study for illustrating the facts related to EVA disclosure practice by the Indian Corporate Sector through their Annual Report. A mounting trend of EVA disclosure practice by Indian companies can be noticed during period i.e., 2001-2007. As per our observation, a total of 17 companies are disclosing EVA related information in their Annual Report in 2001. After that a rising trend may be observed up to the year 2007 in which a total of 30 companies are exposing EVA information in their Annual Report. But from the year 2008 a declining trend of presenting EVA information has been started and continued up to 2016. In the year 2016 only seven companies are showing data related to EVA. Most of the companies have discontinued the depiction of EVA information from their Annual Report in the year 2016 in comparison to the year 2007. Initially some Indian companies have shown their enthusiasm toward disclosing of EVA related information but this practice of disclosing EVA related information in Annual Report by Indian companies is constantly shrinking specially since recent global financial Crisis. This indicates that the companies are still cynical about the success of EVA measures and sustain their loyalty towards traditional performance measures for the evaluation of performance of the companies. This casual and untailed approach of companies regarding disclosing EVA related information in Annual Report can be exist due to complex methodology of EVA calculation and absence of specific Accounting Standard which will make the reporting mandatory. Beside that the measurement of EVA and its major components involves a lot of subjectivity that may reduce its relative and incremental informative power.

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