Managers' Perceptions on EVA and Profitability in Indian Cement Companies

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Abstract

Economic Value Added (EVA) has emerged as a key metric for evaluating corporate performance beyond traditional profitability measures. This study investigates managers' perceptions of EVA and its influence on profitability in Indian cement companies' profitability. Data collected from 73 respondents across four firms reveal a positive and significant correlation between EVA and profitability indicators, such as EPS and ROTA. The findings emphasise EVA's role in strategic decision-making and its potential to enhance shareholder values. Future research should explore EVA adoption across different sectors, conduct longitudinal studies to track changes in managerial perception, and examine technological tools that support EVA implementation.

Keywords: Manager's Perception, EVA, Profitability, Economic Value Added, Value-Based Management, Cement Sector, Financial Performance, and Return on Assets.

Introduction

In order to encourage company managers to act in a way that maximizes values, Stern Steward & Co. of New York created EVA® (Economic Value Added) in 1982 (O'Hanlon and Peasnell, 1998). It is a single, value-based metric designed to assess capital projects, company strategies, and long-term shareholder wealth maximisation. Profits can be compared to the cost of capital needed to produce them to determine how much value the company has produced or destroyed during that time. Consequently, managers can forgo value-destroying endeavours in favour of initiatives vital to shareholder wealth. This will result in an increase in the company's market value. However, undertakings that do not boost profits for shareholders may be vital to social responsibility or consumer happiness. It is the only indicator available for determining an organisation's actual profit. It is crucial for long-term performance and the planning of a company's financial policies to determine the organisation's financial health and ability to create value for shareholders. In this situation, EVA assists managers in establishing organizational objectives based on wealth maximisation and financial assessments.

The amount of economic value created by a corporation over its cost of capital is known as EVA, a value-based benchmark used to assess the financial success of any corporate organisation. In essence, it compares the actual rate of return of a business to the required rate of return. It is a method of calculating a company's true profitability by acknowledging that all capital has a cost, regardless of the type of business, and by determining whether the company generates sufficient earnings to cover the cost of capital or, in other words, whether the company creates or destroys value. "
""EVA = Net Operating Profit After Tax (NOPAT) - Cost of Capital" Or
"EVA = NOPAT - WACC × CAPITAL EMPLOYED"

The Indian cement industry is a cornerstone of infrastructure development; however, research on how managers perceive EVA compared to conventional profitability metrics remains scarce. This gap is significant because managerial perceptions influence financial strategies and long-term value creation.

Economic Value Added (EVA), introduced by Stern Stewart & Co. in 1982, is a value-based performance metric designed to assess corporate strategies, capital projects, and long-term shareholder wealth creation. Unlike traditional profitability measures, EVA accounts for the cost of capital, enabling managers to identify whether a company creates or destroys value or not. By comparing Net Operating Profit After Tax (NOPAT) with the weighted average cost of capital, EVA provides a more accurate measure of true profitability.

The Indian cement industry plays a critical role in infrastructure development and economic growth in India. However, despite EVA's global adoption and recognition as a superior performance metric, research on its perception and application in Indian cement companies remains limited. This gap is significant because managerial perceptions influence financial strategies, resource allocation, and long-term value creation. Addressing this gap, this study examines managers' understanding of EVA, its relationship with profitability indicators, and their satisfaction with EVA-based evaluation methods.

Reviews of Literature

"A number of multinational corporations have adopted EVA® for performance measurement and / or incentive compensation packages. EVA® figures have also been widely promoted in the UK, Australia, Canada, Brazil, Germany, Mexico, Turkey, and France, among other countries. EVA® is also used to provide published rankings of managerial performance" (Stewart, 1993).

"There has also been support for EVA® from other quarters. (Stewart, et. al., 1994), Fortune referred to it as "today's hottest financial idea", "The Real Key to Creating Wealth", and "A New Way to Find Bargains" (30 September 1993)". Since 1993, EVA® performance rankings have been published. Baek and W Ki. (2002) investigated whether firms listed on the BSE stock market generated value for their shareholders through their Economic Value Added.

Biddle (1998) demonstrated a link between EVA, MVA, and other accounting indicators of Indian fertiliser firms. We analyse the correlation between EVA, MVA, and other accounting metrics such as ROI, ROE, EPS, and RONW using correlation analysis. Additionally, ANOVA is utilised to compare the average EVA and MVA for the fertiliser companies under investigation" (Chen & Dodd, 1997).

(Brewer, et. al., 1999) "chose a small number of Indian businesses to shed light on the idea of Economic Value-Added's use as a performance assessment and management tool in the Indian setting. This analysis reveals that during the last five years, the Indian business sector has seen a spectacular turnaround". "The article's main argument was that EVA is a better indication of corporate performance than PAT, ROI, ROCE, EPS, and other conventional performance metrics" (Khan et al., 2012).

Lovata et al. (2002) "mentioned that EVA takes a capital charge out of the cash returns businesses get on capital they invest in to estimate the value they produce or destroy. Corporate managers now have access to EVA as an additional metric in addition to Return on Equity (ROE), Return on Net Worth (RONW), Return on Capital Employed (ROCE), and earnings per share (EPS)". Its assessment considers various aspects, including economics, accounting, and market data (Sharma & Kumar, 2010).

Research Gap: Although EVA is widely discussed globally, its adoption and perception in Indian cement companies remain underexplored. By addressing this gap, this study aims to provide actionable insights into improving financial decision-making and corporate governance.

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Objectives

1. To analyse managers' understanding of EVA as a performance measure.
2. The relationship between EVA and profitability indicators is examined.
3. To assess satisfaction with EVA-based evaluation methods.

Research Methodology

Sampling Strategy

A convenience sampling method was adopted to select respondents from the four cement companies. This approach was chosen because of practical constraints, such as limited access to firms, time restrictions, and the need for timely data collection. While convenience sampling limits the generalisability of the findings, it is appropriate for exploratory research, where the primary goal is to gain insights into managerial perceptions rather than to make broad population-level inferences. The sample of 73 respondents provides a meaningful representation of industry professionals, enabling the study to identify patterns and relationships between EVA and profitability.

Methods of Data Analysis

Type of Data: Convenience sampling, which employs a cross-sectional design, was used in this study to select respondents from a limited number of organisations. The seven-year timeframe of this research is from 2015–2016 to 2021–2022.

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Data Sources: A variety of primary and secondary data were analysed for the current study's goal. Most of the primary data were gathered via questionnaires, in-person visits, interviews, and discussions with top representatives of the relevant cement businesses. Conversely, secondary data were obtained from the annual reports of the selected cement companies.

Methods of Data Analysis: Pearson correlation and multiple regression analyses were employed to examine the relationship between EVA and profitability indicators and to assess satisfaction with EVA-based evaluation methods.

Data Analysis

Table 1 EVA and NOPAT

	BLM C ment		Keshav C ment		Anjani Portland Cement		Barani Cement	
Year	EVA	NOPAT	EVA	NOPAT	EVA	NOPAT	EVA	NOPAT
2021-22	476.84	1,384.18	52.56	341.87	-62.95	83.96	455.41	504.69
2020-21	368.86	1,339.11	-28.41	210.78	-61.54	82	905.86	1,049
2019-20	167.77	1,143.13	-98.80	103.33	-24.40	93	-23,535.10	-23738
2018-19	-25.70	426.33	-70.10	103.33	8.70	95.6	-10,801.22	-10,488.16
2017-18	197.63	787.24	-8.47	156.92	-72.50	93	-20,094.79	-19712.38
2016-17	96.20	1,003.97	-20.58	233.55	24.21	175.74	11,752.49	11,982.48
2015-16	-83.30	618.5	-80.78	177.33	-25.32	153.33	4,710.16	4,839.79

Sources: Primary Data

The present section deals with analysis of relation between EVA and Profitability of all companies.

Table 2 Correlation

Descriptive Statistics			
	Mean	**Std. Deviation**	**N**
EVA	90.92	245.460	28
NOPAT	-1950.49	6797.092	28
Correlations			
		EVA	NOPAT
EVA	Pearson Correlation	1	.561*
	Sig. (2-tailed)	27	.015

"Note: *Correlation is significant at the 0.05 level (2-tailed)"

"**Sources**: Primary Data"

The above table shows that all firms' profitability and EVA have a favourable relationship.

Satisfaction from Value Added Method

This section captures the views of finance managers and employees on value-added methods. The scale elements listed below were utilised in the analysis.

Table 3 Scale Item and Descriptive

Types	Scale Items	SPSS
Independent Variables	"Do you think value added is a better way to assess financial success than profitability as a finance manager?"	Proft1
	"Do you think that EVA is a more accurate way to assess financial success than profitability as a finance manager?"	Proft2
	"Do you think that MVA is a more accurate way to assess financial uccess than profitability as a finance manager? "	Proft3
	"Do you believe that VA is a more accurate indicator of financial performance than EPS? "	EPS1
	Do you believe that EVA is a more accurate financial performance metric than EPS?	EPS2
	Do you believe that MVA is a more accurate indicator of financial performance than EPS?	EPS3
	Do you believe that VA is the most effective way to gauge ROTA's financial performance?	ROTA1
	Do you believe that the best way to measure financial success by ROTA is through EVA?	ROTA2
	Do you believe that MVA is the most effective way to gauge ROTA's financial performance?	ROTA3
	Supervisors are responsible for less value addition.	Account1
	Managers are responsible for producing less or negative economic value.	Account2
Dependent Variable	Do you think your company's value-added metrics for performance evaluation meet your needs?	Satisfaction

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
3	.585[c]	.342	.314	.51894
Note: c. Predictors: (Constant), ROTA3, Account1, Proft1				

ANOVA[d]						
Model		**Sum of Squares**	**d.f.**	**Mean Square**	**F**	**Sig.**
3	Regression	9.665	3	3.222	11.963	.000[c]
	Residual	18.582	69	.269		
	Total	28.247	72			
Note: c. Predictors: (Constant), ROTA3, Account1, Proft1 d. Dependent Variable: Satisfaction						

Coefficients[a]						
Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**
		B	**Std. Error**	**Beta**		
3	(Constant)	5.065	.269		18.796	.000
	ROTA3	-.205	.054	-.376	-3.828	.000
	Account1	-.149	.050	-.292	-2.959	.004
	Proft1	-.211	.080	-.261	-2.648	.010
Note: a. Dependent Variable: Satisfaction						

Sources: Primary Data

Suggestions

Based on these findings, the following recommendations are proposed:

- **Adopt EVA in Performance Measurement:** Cement companies should integrate EVA with traditional metrics to ensure value-based decision-making.
- **Managerial Training:** Conduct workshops to enhance the understanding of EVA and its strategic implications.
- **Policy Alignment:** Align financial policies with EVA principles to improve resource allocation and shareholder wealth.

Future Research Scope

- Comparative studies across different sectors.
- Longitudinal research is needed to track changes in managerial perceptions over time.
- Exploration of technological tools for EVA implementation.

Conclusion

The study's initial findings showed a favourable correlation between each company's profitability and EVA. Furthermore, the regression findings demonstrate that the variables that were chosen above have the same variances regardless of changes in the dependent variables (satisfaction), with a value of R =.585 and an adjusted R square =.314. Three variables are predictive of the change in the dependent variable's satisfaction: managers' belief that MVA is the most effective way to measure financial performance using ROTA (ROTA3); managers' accountability for lower value addition (Account1); and managers' belief that value added, rather than profitability, is a better way to measure financial performance (Proft1). Moreover, the model's ANOVA fit of 11.963 was significant at $p<0.05$. Therefore, we may state that the model fits the factor it predicts.

Furthermore, based on the aforementioned conclusions, it is evident that only three variables-ROAT3, Account1, and Proft1–predict satisfaction with the value-added analysis technique of gauging business success.

This study fills this critical gap by examining managers' perceptions of EVA in Indian cement companies. The results confirm a positive link between EVA and profitability, reinforcing EVA's role as a strategic-performance metric. These insights contribute to the academic literature and offer practical implications for corporate governance and financial planning.

This study examines managers' perceptions of Economic Value Added (EVA) and its relationship with profitability in Indian cement companies.

The findings confirm a positive and significant correlation between EVA and key profitability indicators, fulfilling the research objectives outlined in the Introduction. Regression analysis further demonstrates that managerial beliefs about value-added measures, accountability, and performance evaluation strongly influence satisfaction with EVA-based assessment methods.

By addressing the research gap identified earlier, this study reinforces EVA's role as a strategic metric in value-based management and corporate governance. These insights contribute to the academic literature and offer practical implications for improving financial decision-making in the cement sector. Future research should explore EVA adoption across different industries, conduct longitudinal studies to track changes in managerial perceptions, and investigate technological tools that support EVA implementation.

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