Inspira-Journal of Commerce, Economics & Computer Science (JCECS)
ISSN : 2395-7069, Impact Factor: 5.660, Volume 07, No. 03, July-Sept., 2021, pp. 126-130

ESG AND EVA: EMERGING, DEMANDING & COMMANDING FIRM'S EVALUATORS GLOBALLY-A PERSPECTIVE IN INDIAN CORPORATE CONTEXT

Ms. Jyoti Gupta*
Dr. Lal Ji Pandey**

ABSTRACT

As long as the existence of any business Firm is concerned its financial performance evaluation is still one among the prime activities. There are numerous Traditional methods of fulfilling the above objective as EPS, RI, ROA, ROI, Net Profit and Contribution Margin etc. All used to target on done financial activities, While present scenario demands the focus to creat future oriented shareholder value measurement Techniques.EVA which has a significant relationship between wealth maximization and wealth of shareholders also found a recommended place in financial reporting of Indian Corporates as Infosys, HUL and many more.ESG which states about 'greeniums' or termed as premiums on green bonds is on an encouraging sign because it is creating a climate-positive investment environment. In the present Globalized environment the concept of ESG which lays impact on Creditworthiness of the projects and as well as on Contingent liabilities etc. Similarly Compliance with specific global standards can be meet out with the help of this strong social impact evaluator environmental, social and corporate governance. There is a great focus on ESG strategy during this pandemic time of COVID for the well being of communities, protect people and to safeguard the long term economic performances of the companies. This is a preferable area of research too.

KEYWORDS: *Environmental, Economic Value Added, Earning per Share, Return on Investment.*

Introduction

Financial Point of view replicate that inclusion of cost of capital of each and every source can only depict an actual result in this area of evaluation and for the same Economic value addition is the modern technique which is highly appreciated by foreign corporates and now a days In Indian Context too many big giants as Infosys, Hero Motor Corp, Emami, Godrej, HUL, BHEL, L & Tetc are showing it in their annual reports by applying the statistical tools as Mean, Standrad deviation, Coefficient of variation. Trend but as conventional methods do not imply the same .Let's Talk about a new concept ESG which considers the integration of environmental, social and corporate governance to generate the long term risk-adjusted long term returns with the inclusion of positive societal impact. This concept aims at achieving triple bottom line of "Good for planet, people and profits". EVA and ESG both have a structured approach to identify the potential oppurtunities and stick out the hidden risks present beneath business activities. One of the first AMC to introduce ESG as fund in India is Quantum. Which has been doing research work on the same since last five years to benefit the investor so that stock selection can be done on the basis os ESG principles.

Traditional Methods

Conventional methods appeared in early 1900s to measure the financial performance of corporate sector and since then Profit has been the prime factor. As this is termed in business definition too that the main objective of starting any business is to earn profit .In 1925 the propounded theories of Epstein, sloan's 1929 theory during 1930 Fisher became so popular and acceptable among many. Hirscheifer 1958 gave NPV, IRR through discounted cash flow techniques and later they were added to capital budgeting system. Moving towards 1960 when Walter and Gordon propounded Dividend Theories, In 1961 M & M approach. Later to represent the growth rate CAPM Model came to limelight, As time passes experiences and done research work started adding other factors and new capital market indicators were adopted to for calculating the financial performance of corporates.

---

* Assistant Professor, L.R. College, Sahibabad, Ghaziabad, Uttar Pradesh, India.
** MM(PG) College, Modinagar, U.P., India.

Emerging Financial Evaluators

EVA: This is the method which tells that how much shareholder wealth is being created. Economic profit is required not the accounting profit only. Economic value addition is the trademark of Newyork 's financial advisory Stern stewart & Company's bucket. Going back during the period of five years from 2004 to 2008 just 37 companies out of India's biggest five hundred were using the EVA metric in public disclosure accounts. Value of capital and its opportunity cost or in other words called compensation of equity.

- **Previous Studies**

Stern (1990)[1] The best performance measure was taken to achieve the real economic profit of an EVA organization. The management of finance should be based on them and their offset scheme provides managers with better information and a higher incentive to choose the maximum shareholder assets in an organization. This success indicator is the closest relation to determining a shareholder's capital over a period of time. Therefore, EVA should be the priority for various initiatives such as financial statements etc. EVA will steer managers to maximise organizational benefit by following those targets. Managers will be charged a percentage of both EVA's gross changes and EVA's optimistic improvement.

Rutledge (2013)[2] is the full supporter of this concept as such. According to Stern Stewart & Company, economic added value is a sentence used to describe the method of measuring profit from taxes by cutting down the cost of charged capital. The old "marshall Alfred" was a positive result of his microeconomic progress. Many administrators are distracted with new creative strategic concepts, each with its own name and glossary. EVA, Stewart Stern, and his name for the old friend's shop are part of the latest serving dish of this kind.

Jain (2014)[3] submitted that value added statements have some advantages, such as comparing performance, measuring productivity, allocating resources and employees' incentives. The value added approach shows how different contributors to value alienated the quiche of the company.

Stewart (2014)[4] is considered an influential expert who has expanded the concept and has applied to EVA as an innovative method for new management (in the global sense known as traditional method for corporate results. EVA provides an integrated financial reporting system and bonus rewards.

Ochsner (2015)[5] termed the final results of a company derived from the economic value addition methods into an economic language. The annual portion of free cash flow minus total capital expenditure is also quantified. It is no longer a conventional accounting, which administrators may have considered inconsistent and inaccurate for a few days now.

Quickel (2016)[6] describes how Ripp,-the CFO of AMP-make the sales of AMP shoot-up. Twenty-nine year IBM Veteran Robert Ripp joined electronic connector manufacturers in 2014 as the company's first externally hired CFO. During the first year with AMP, Ripp made a rash proposal that the company triple its sales to $ 10B by the year 2018. AMP's sales topped $ 4B in 2014 and reached $6B in 2016, representing an increase or over 50% in two years. By that time, net income had increased by 60%. Ripp played a key role in the implementation of the AMP value added, and adaptation of the economic value added concept.

Smith (2017)[7] Pioneers that numerous insurance companies use mathematical and statistical criteria to evaluate financial performance in the concept of econometrics measurement. The insurance industry uses these measures as a complementary evaluation measure mainly because insurers are still successful with existing measurement systems, such as Total Business Return and Economic Value Added.)

Stern, Joel (2018)[8] Discussed at an ASCI workshop on value-based management in collaboration with Reach and Stern Stewart and Co. The event was held in Hyderabad on 21 and 22

---

1 Stern, Joel 1990, "One way to build value in your firm, Executive Compensation", Financial Executive, Nov-Dec 1990 pp51-54
2 Rutledge,J . 2013, "De-jargoning EVA", Forbes ,oct 25, 2013 ,Vol 152, No p. 148(1),
3 Jain ,S.K (2013), "How much value are you adding", The Management Accountant, August 2014 pp. 610-11.
4 Stewart, G. Bennet, (2014), "EVATM Fact and Fantasy", Journal of Applied Corporate Finance, June 2014, pp. 71-84.
5 Ochsner (2015), "Welcome to the new world of 'economic value added', Compensation and benefits. March-April 2015,Vol. 27, No. 2, p. 30(3).
6 Quickel, S. (2016), "Juicing up AMP" , CFO : The Magazine for Senior Financial Executives, June 2016, p. 36(5)
7 Smith L. (2017), "Beyond profit and loss", Best's Review Property Causality Insurance Edition, 2017, Vol 97, No, 12, p. 40(4)
8 Stern, Joel, "Workshop on Value-based Management", Organized by the ASCI, Hyderabad, March 21-22, 2018.

March 2017. The software was introduced by ASCI Dr. EAS Sharma, Principal. He underlined that traditional accounting metrics did not calculate the worth of an entity and thus contributed to issues like Enron. He hoped the latest attempts to encourage understanding of the VBM definition will be adopted by the ASCI. Mr. K. Dikshit, director of Reach, was satisfied with the successful position of PSUs and hoped that PSUs would also be able to follow a structure to improve their performance. The programme's highlight was the keynote speaker Mr. Joel Stern, the leader of EVA. The definition of economic added value has been defined as the difference between Mr. Joel Stern's return on assets and the cost of risk capital. In the view of the investor as borrower, he clarified the details on the current accounts only. He also addressed how the incentive banks can be related to consistent success and flexible pay. The discretionary factor for all contractor workers is minimised and the company's payroll expenses are lowered when market output has a negative impact. The single point about this system is that the entire variable portion of the pay, for example, is challenged and that workers continue to cooperate with the 'VATERS' in the conversation.

- **Positivity Inclusion**

Value addition from economic point of view helps the investor in monitoring the upcoming return on made investment in the particular firm as earlier it was really unpredictble in the time of traditional techniques. The reason is they do not give importance to equity share capital and the connected returns from that. The risk which is beard by an equity investor is highly appreciable as it works as a backbone for the company connected to the stock market.

Exact value creation is computed by:

EVA = ANOPAT- Cost of capital

ANOPAT means Adjusted Net Operating Profit after Tax;

Cost of capital is the minimum required rate of return expected by the company and investors as well. It can be as WACC (Weighted average cost of capital).

ESG: Emerging as a new concept where with the help of non financial factors broadly including environmental, social and governance analysis is made to identify market growth opportunities and material risks as well .

This abbreviation is the synonym of Sustainability in various cases. Sustainability here allows to work upon a business model which work upon the sustainable development with the help of company's products and Services. The current economic scenario demands more reliable and vibrant indicators to know what is actually added in the business. Structural Changes as per the society inception with ecofriendly nature applied by a strategic governance are the key indicators of the said changes. In this global uniform laws and cooperative vs. competitive environment performance evaluation by ESG integration is of utmost importance.

- **Initial Steps**: India an emerging global market is changing and its Corporate sector too adopting these global earth saving strategies and measures. For example Working on a carbon negative roadmap is committed by Dalamia Cement group.

Popular in social Media too Mr. Anand Mahindra group Mahindra & Mahindra has already taken up an initiative in the field of green product portfolio, from waste to energy and green building initiatives as well. In the field of environment JSW the Steel giant S built up a pipe conveyor belt to transport the iron ore to cut down the truck transportation pollution.

- **ESG Investment Analysis:** This is the study of Societal impact of any investment made in a company and a natural inclination is seen among investors of following this strategy as to predict and reduce known systematic market risks. Investing in ESG has become the integral part of asset management as this is now considerable in the mainstream of global financial system from just a check box .Hopefully above considerations will help out in achieving United Nations Sustainable development goals by 2030as there is a good flow of investments in this pandemic too which has derailed SDG's .Initiatives of multilateral development banks and government alone cannot meet the target of annual $2.5trillion.To beat the indices follow the sustainability as alpha. In Indian Context this is really motivating to know that Socially responsible investing (SRI) or ESG specified investments have seen a record inflow of $168.74 billion in 2020 in comparison to $63.34 billion in 2019. That is indicating that Indian Incorporations are accepting new alphs mantra. Axis Bank

- **ESG in Stock Market:** Do we guess one of the prominent features of the future of Equity market on some standards? Calculatedly yes ! ESG that Integration of environmental, social and governance factors in the investment process of stock market. It states that when the sustainability of any company is testified on the grounds of the defined factors in ESG. Right now more than $1 trillion ESG funds are floating Globally. Quantum India ESG Equity fund Manager is ranked has secured the fourth best place for managing sustainability oriented funds.

Data released by AMFI approves that nearly combined assets worth 9,516crore Indian Rupees was the value of ESG funds invested in India during December 2020.These funds are outperforming continuously when compared with he traditional equities on long term basis and helping in downsiding the risk factor too. All above these observations are of pandemic duration . In Funding ESG based equity portfolio can get started from 20 % as all atre subjected to at risk and our average investor is generally a risk averse creature

- **ESG in Future Prospects:** Future growth of this phenomenon will be based on "Longevity is the fruit of strict adherence". Besides this quote this is also vital to consider that beyond longevity the ESG framework strength is most considered by the Indian Investors. As ESG refers to include environment consious business practices, Strength in social responsibilities and a well structured Governance in Corporate and this Phenomenon is going to be the game changer in future. So this bunch of firmness in the Sustainability framework is the key to success.

Interrelation among EVA, ESG and Stock Market Investments: Financial reporting is a mandatory procedure for corporates where EVA disclosure is must where followed while inclusion of ESG is still out of it though companies are showing its application and effects in their final statements or through separate sustainability reports. It shows its contemporary and upcoming ranking.

Research Perspective

- Behind EVA technique a simple logic work out that between two companies, Company X and Y. If the former one has debt and equity both in its capital structure while the later one means Y is equipped with only equity share capital. Then at the time of financial reporting company X will consider its cost of capital and will reduce its profits as well as the tax burden too. On the other hand company Y has no helping hand and this is going to pay more tax with more dividend too. So the interest of every stakeholder is not secured if we are not applying the technique of economic value addition.
- How the companies following ESG standards should be evaluated has a different domain and checking is being made on more than 200 parameters while screening companies considerable points are maximum weightage is given to followers of regulations on ESG material aspects that is nearlly 70% and approx 30% as per the level they are disclosing firm's sustainability reports in their annual reports.
- If we talk about EVA analysis Finance is heart of any business in maximizing economic profits and on the ground of ESG governance takes this place. Its shortcomings are directly proportional to the poor performance on the social and environmental front. In percentage 50% weightage completely goes to governance and the remaining 50 % to social and environmental aspects together.

Findings and Discussions

- Point (a) So far done research perspectives clarify that maximum amount distributable must be found out after applying the modern techniques.EVA is a one step ahead of accounting profits those are mandatory for the corporates to show through their financial statements.
- How the capital should be allocated in different areas, among different units is the outcome of a well applied Economic value added technique, this is one of the finest findings of this amazing and standardized format.
- As if we talk about the ESG concept there are some of the nuances like transparency of good governance practices is still difficult in India, If we talk about business ethics they are still under a better opportunity surveillance. Some of the initial costliest environment -friendly technologies adoption stops to take a daring challenge to our top level management and none other then if we talk about the application of good governance then too majority of the structure in India is on its back foot. People are not that much tech savy and those are trying to step in have a limited ratio.

- Multilateral development banks are embedding principles of ESG for making decisions In Country like India where number of average investor exceeds other categories facing challenges due to factors like lack of information's, time and transparency etc.

Conclusion with Recommendations

It is highly recommended that bodies like SEBI, Company law board, ICMAI, ICAI and other alikes should initiate in making EVA a mandatory and uniform procedure of implication. This can be given firmness by forming separate accounting standards as well as connecting it with the benefits of all stakeholders including plans related to compensation of employees.

The weightage is different at each pillar of ESG while moving around sector to sector. Similarly EVA also gives out the best possible economic profit outcomes. This can be strongly recommended that selection of environment friendly and ethical products and services should be preferred undoubtly.

Both concepts are becoming the integral part of asset management so are getting into the mainstream of global financial system. Besides there are possibilities where the counterparty try to take undue advantage by jacking up the land prices and try to take other compensations and subsidies which unjustified.

References

1. Climate Bonds Initiative-India, January 05,2021,Sandeep Bhattacharya, GRI Hub
2. Stern, Joel 1990, "One way to build value in your firm, Executive Compensation", Financial Executive, Nov-Dec 1990 pp51-54
3. Rutledge, J . 2013, "De-jargoning EVA", Forbes ,oct 25, 2013 ,Vol 152, No p. 148(1),
4. Jain, S.K (2013), "How much value are you adding", The Management Accountant, August 2014 pp. 610-11.
5. Stewart, G. Bennet, (2014), "EVATM Fact and Fantasy", Journal of Applied Corporate Finance, June 2014, pp. 71-84.
6. Ochsner (2015), "Welcome to the new world of 'economic value added', Compensation and benefits. March-April 2015,Vol. 27, No. 2, p. 30(3).
7. Quickel, S. (2016), "Juicing up AMP" , CFO : The Magazine for Senior Financial Executives, June 2016, p. 36(5)
8. Smith L. (2017), "Beyond profit and loss", Best's Review Property Causality Insurance Edition, 2017, Vol 97, No, 12, p. 40(4)
9. 9.Stern, Joel, "Workshop on Value-based Management", Organized by the ASCI, Hyderabad.
10. Economic Times.
11. Business Standard. etc.

❑❑❑