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A STUDY OF LITERATURE REVIEW ON FINANCIAL PERFORMANCE OF SELECTED & LISTED CHEMICAL COMPANIES WITH REFERENCE TO EVA AND MVA

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ABSTRACT

The assessment of financial performance assumes essential value creation potential for the long-term sustainability of firms with specific references to capital-intensive and environmentally burdened sectors, such as the chemical industry. Traditional financial performance indicators like Return on Assets (ROA), Return on Equity (ROE), Earnings per Share (EPS), or Net Profit Margin (NPM), have been considered long metrics of measuring profitability and efficiency by corporations. Generally, these indicators fail to describe the visible economic value being delivered to shareholders since the cost of capital or the market expectation is excluded. In recent years, value-based performance measures-most notably EVA and MVA- have gained importance owing to their ability to address such limitations concerning a more complete picture of financial health and shareholder wealth creation.

This literature presents a qualitative review on the financial performance of selected listed chemical companies, particularly concentrating on EVA and MVA as the primary evaluation tools. Kinds and numbers of scholarly articles, industry studies, and reports have been included in this paper, to understand the applicability, merits, and demerits of these parameters. This paper also explores how non-financial factors such as intellectual capital, Environmental Social and Governance (ESG) practice, audit quality, etc. represent influencers of the financial performance and value creation phenomena in the chemical industry. The conclusion of this review finds that while EVA and MVA lend themselves to much deeper understanding of wealth generation and market perception, they still have not been widely adopted or consistently applied in the chemicals industry, especially within developing countries like India.

Also, there is the growing literature on intangibles and their importance and sustainability-related practices as driving performance in firms nowadays. Intellectual capital (i.e. human, structural, and relational capital) has also been shown by various studies to have a positive correlation with both EVA and MVA. Again, it is likely going to be profitable in market valuation and earnings from long-term operations for firms with good ESG practices as compared to the market. Quality of Audit, especially in terms of independence, expertise and governance, comes to light as one of the essential factors determining the accuracy and reliability of much financial reporting. While thus also affecting investor trust and financial outcomes.

The study is limited in many respects. This being a literature review, most of it is theoretical with no empirical testing or primary data analysis. The findings are also from previously published research, which might not do justice to the most recent changes in financial practices or market conditions. The scope is also limited to what has been reported in literature concerning listed chemical companies and does not account for the performance of unlisted companies as well as companies in other geographies.

Keywords: EVA, MVA, Financial Performance, Chemical Companies, Value Creation

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1. INTRODUCTION

Financial performance is a determinant in today's global competition for corporate success and sustenance. Investors, policy-makers, and stakeholders alike are ever on the lookout for useful tools and measures to gauge how well a company is using its resources to earn profits and create value for the long term. In the tradition, financial performance was measured purely on accounting-based parameters like Return on Assets (ROA), Return on Equity (ROE), Earnings per Share (EPS), and Net Profit Margin (NPM). These are good indicators to analyze operational efficiency and profitability, but they fail to indicate the true economic value created for shareholders.

Economic Value Added (EVA) and Market Value Added (MVA) are finding increasing accolades as a response to this limitation. These value-based measures are anchored on wealth creation and intend to depict a true picture of the financial health of the firm with cognizance of capital costs and share returns. EVA is essentially the net operating profit after taxes (NOPAT) minus the cost of capital, which shows the value generated in excess of the expectations of the investors. MVA, conversely, is the market value of the company less the book value of invested capital, thus reflecting the market view on the company's performance.

With the capital-intensive and environmentally hostile chemical world, this industry represents a key segment in the global economy. It performance holds great concern not only to investors but also to regulatory bodies, environmental agencies, and society at large. Yet, there has been scant research on the study of financial performance in listed chemical companies through modern value-based measures like EVA and MVA, particularly in the Indian context. In trying to bridge the gap, this study intends to explore the financial performance of selected and listed chemical companies in India concerning value creation as further attested to by EVA and MVA.

Understanding Economic Value Added (EVA) and Market Value Added (MVA)

EVA and MVA provide the ability to measure worth creation, and the reason they have evolved as two key instruments of modern financial management. EVA differs from traditional measures in that, while traditional measures look at accounting profits, EVA also considers the cost of capital, thus recognizing that capital is not free and that any return must exceed the cost of capital to constitute value.

EVA = NOPAT – (Capital Employed × Cost of Capital)

This is primarily concerned with operational efficiency and the management of cost of capital. Therefore, when EVA is positive; value is created above the cost of capital. If it is negative, it represents the destruction of value. MVA measures the difference between the firm's current market value and capital invested by shareholders. The measure illustrates how well the market perceives the future earning potential of the company based on present and past performance.

MVA = Market Value of the Firm – Capital Invested

EVA and MVA have been put to good use in compensation systems founded on performance, investment analysis, and internal capital allocation. In industries like chemicals, which are driven by enormous R&D expenditures, asset intangibility, and long gestation periods, these measures paint a clearer picture of a company's financial health and potential for attracting investors than conventional ratios would.

Traditional Financial Measures and Their Limitations

Some age-old indicators-such as ROA, ROE, and EPS-are still very popular despite constant criticism due to their excessive dependency on short-termism and accounting-fraudulent practices. Hence, these indicators do not account for any opportunity cost of capital, thereby painting an overly rosy picture of profitability. At times, a company may congratulate itself for having high net income when, in fact, it is actually destroying value by underperforming against its capital cost.

Traditional measures are backward-looking and concentrate on things that have already happened rather than considering future contributions to shareholder value. In capital-intensive industries such as chemicals, where realizing investment capacities concerning technology, sustainability, and innovation are of paramount importance, traditional metrics sometimes tell only part of the story.

Role of Intellectual Capital

Recent studies emphasize the increasing importance that intellectual capital (IC) has assumed in influencing financial performance, particularly in knowledge-intensive industries. IC comprises three components: human capital, structural capital, and the efficiency of capital employed. Firms that deploy their intellectual capital effectively tend to outperform their competitors in terms of profitability and market valuation.

In the chemical industry, innovation and R&D get differentiation in competition. New product development, process innovation, and compliance with environmental regulations depend heavily on intellectual capital. Several authors (Ali et al., 2022; Weqar et al., 2020) have found a positive relationship between IC and EVA/MVA, thereby confirming the notion that intangible assets are among the major drivers of shareholder value creation.

ESG Practices and Their Impact on Financial Performance

The environmental, social, and governance factors (ESGs) are critical parameters for sustainable value creation. Investors are considering ESG performance in benchmarking their risk management and ethical operations. Environmental responsibilities are nothing more than compliance in high-impact industries like chemicals; they are now a matter of strategic importance.

Strong research evidence indicates that these companies, with good ESG practices, delivered higher levels of EVA and MVA because of better risk management, operational efficiencies, and reputation of their brands. For example, Othman Hel Al-Dhaimesh (2020) indicated that green accounting practiced by Qatari firms has benefited the EVA, while Wingard & Vorster (2001) found a positive association between environmental performance and financial performance.

Unfortunately, the ESG practices are poorly reported and comparatively poorly measured, especially in emerging markets. There is a case for further organized assessments of ESG disclosures and their possible linkages to value creation measurements in the Indian chemicals sector.

Audit Quality and Financial Performance

By definition, audit quality relies heavily on dependence: auditor independence, committee size, and frequency of meetings ensure transparency and accuracy of accounting estimates and full disclosure. This, in turn, enhances investor confidence relating to market valuation.

Studies such as Alhawtmeh (2024) suggest a positive influence on ROA and ROE from audit quality, along with possible positive impacts on value-based measures like EVA. In sectors where financial misreporting or environmental liabilities are more prone, such as chemicals, strong audit governance can differentiate between the leading company and the pack.

Consequently, this area becomes quite relevant, since even though audit quality is an important area, it has not yet been studied intensively with regard to the EVA and MVA in the chemical sector.

Significance of the Study

This study is important to different groups of people. To investors and shareholders, it explains how much chemical companies are creating value. Corporate managers are given insights into how innovation, environmental responsibility, and certain governance decisions influence long-term performance. The study becomes a good addition to the growing stock of literature in value-based financial analysis from the angle of emerging economies for the academic and research community. Therefore, the research paints a broader framework to judge performance based on combining traditional measures, EVA, MVA, and non-financial indicators for the chemical sector. With this, more informed policy making, allocation of resources, and investment decisions can be impacted.

The apparent limitation of these indicators in tracking true shareholder value creation has given rise to value-based measures, EVA and MVA. The application of these measures in chemicals and its sectors, especially in emerging economies like India, is found to be lacking. Further, parameters like intellectual capital, ESG compliance, and audit risk quality have emerged as crucial determinants connected with financial performance but remain variable in their adoption and integration into the current paradigm of performance measurement.

This research aims to fill these gaps by applying a multi-dimensional framework to evaluate the financial performance of some selected listed chemical companies, thereby integrating traditional variables, EVA, and MVA alongside qualitative variables. The results will give insight into financial performance and value creation in the chemical industry for both practitioners and researchers alike.

2. NEED FOR THE STUDY

The need for adequate and extensive tools for performance measurement has gained much importance in the present-day situation of instability and sustainability awareness globally. Such complexities in the chemical sector arise from variable costs of raw materials, stringent regulations for environmental protection, and massive capital requirements, thereby demanding a more sophisticated view of financial assessment. Although traditional accounting

measures that are popular and widely used bring simplicity and ready availability, they often ignore the true cost of capital; therefore, they do not really tell if one is creating wealth for his/her company.

Investments are now not just about short-term profit, but long-term value creation and sustainability. This shift of thinking has placed EVA and MVA in the limelight of financial analysis. These two measures provide insight into operational performance, strategic effectiveness, investment efficiency, and market perception — all critical issues for the chemical industry's survival.

Recent studies indicate that intellectual capital, ESG, and audit quality are sound determinants of value creation by firms. Non-financially oriented considerations are increasingly driving investment decisions and actions, especially in environmentally risk-prone sectors such as chemicals. Accordingly, a multi-dimensional approach to performance analysis-involving EVA, MVA, traditional indicators, and qualitative factors-is vital to a proper appreciation of the subject.

3. SCOPE OF THE STUDY

The financial performance of selected and listed chemical sector companies in India has been analyzed; this study uses traditional accounting measures and value-based measures such as EVA and MVA. The relative effectiveness of traditional and value-based measures in measuring shareholder value creation is also studied. Intellectual capital, ESG practices, and audit quality are included as additional determinants of these companies' financial performance examined to understand how these shape the implications of value-based indicators for company performance.

By these measures, this research will enhance the existing body of knowledge on these performance appraisal issues and practically direct financial analysts, investors, and company managers who are directly involved in strategic planning and sustainability assessments.

4. RESEARCH METHODOLOGY

The present study adopts a qualitative research methodology based solely on secondary data collected from existing academic literature, industry reports, and scholarly articles, focusing on exploring and synthesizing previous studies related to the financial performance of selected and listed chemical companies, with special reference to EVA and MVA as major indicators of performance. The literature would be used in understanding the assessment that has been done with regard to how these value-relevant financial metrics can be used in showing value creation to shareholders in varied contexts. The review emphasized on findings from previous studies that would tend to represent evidence of life trends, perhaps contradictions, and research gaps associated with EVA and MVA within the chemical sector. In contrast to empirical studies, this research is not concerned with collecting primary data nor statistical analysis but is meant to furnish a conceptual groundwork through a critical examination of qualitative evidence. Systematic review of the literature would lend itself to an empirical examination of strengths and weaknesses of EVA and MVA as measures of financial performance along with additional investigations of the possible influences of intellectual capital, ESG practices, and audit quality as described previously. This method meets the purpose of shaping a conceptual understanding and indicates future directions of research and practice in financial performance evaluation in the chemical industry.

5. RESEARCH OBJECTIVES

- To critically examine the conceptual frameworks and theoretical relevance of Economic Value Added (EVA) and Market Value Added (MVA) as value-based measures for evaluating financial performance in the chemical industry.
- To analyze scholarly perspectives on the influence of intellectual capital, ESG practices, and audit quality as qualitative determinants shaping EVA and MVA outcomes in listed chemical companies.
- To identify research gaps and underexplored dimensions in existing literature related to the application of EVA and MVA, particularly concerning intellectual capital, ESG practices, and audit quality in the context of listed chemical companies.

6. LITERATURE REVIEW

All that the studies include are various financial performance and value-created measures, concentrating on that between Economic Value Added (EVA) and Market Value Added (MVA). While Istan (2023) showed positive EVA and MVA values in some Indonesian telecommunications companies that suggest they successfully create value, it was also found by de Wet (2005) that EVA is less superior as compared to traditional accounting measures in ensuring shareholder value creation. Alshehadeh et al. (2024) confirmed that normal economic measures of profitability significantly influence MVA for pharmaceutical and chemical firms in Jordan. Faiteh and Aasri (2023) found that normal EVA performs better than classical indicators in explaining MVA for companies listed on the Casablanca Stock Exchange. They also suggested EVA computed using accounting beta as an alternative for companies that are unlisted.

Economic Value Added (EVA) and Market Value Added (MVA) are recognized as adequate measurements of wealth creation among shareholders, while underscoring some limitations of the traditional accounting metrics (Rajesh Mamilla & Vasumathi, 2020). Also, intellectual capital which consists of human capital, structural capital, and capital employed is found to have a remarkable effect on financial performance in companies operating in Pakistan as well as India (Ali et al., 2022). The EVA method is touted as a reliable management tool for sustainability assessment based on the combination of financial and non-financial indicators (Jankalová & Kurotová, 2019). Moreover, audit quality specifically by auditor independence and audit committee size enhances the financial performance indicators such as ROA, ROE, and EPS in Jordanian chemical companies (Alhawtmeh, 2024). These studies put jointly emphasize the necessity of proper performance measurements and quality auditing practices for the enhancement of corporate financial performance and sustainability.

Recent studies have researched into environmental responsibility and intellectual capital in determining financial performance. The adoption of green accounting practices greatly affected economic value added (EVA) of Qatari listed companies; however, the quality of the green accounting practices varied across sectors (Othman Hel Al-Dhaimesh, 2020). Again, in Oman, intellectual capital had a very slight positive influence on financial performance, especially on the asset turnover ratio, which implies that efficacy enhances (Lehenchuk et al., 2024). Literature review shows the advancement of financial performance studies within electricity sectors to accommodate other factors such as technological activities, innovation and the environment (Nugroho et al., 2024). Environment responsibility has been proven to be positively related to financial performance indicators, such as ROE, ROA, ROC, and EVA, in a study of listed companies in south Africa (Wingard & Vorster, 2001). Therefore, all these points are empowered together to show the complex interrelation among environmental practices, intellectual capital, and financial results in varied markets.

A research on metrics and their interrelationships on financial performance in light of findings suggesting Economic Value Added (EVA) could serve as a universal measure, albeit not fully capturing the limitations emerging markets may possess (Dobrowolski et al., 2022). Again, traditional profitability indicators were found to have an effect on EVA regarding Jordanian insurance companies, thereby validating EVA's relevance as a measure of financial performance (Alshehadeh et al., 2022). Environmental, social and governance (ESG) issues and corporate financial performance (CFP) are related in a long-term perspective, whereby it is conformed as necessary balance for long-term business viability (Cao & Hanafiah, 2024). Moreover, intellectual capital (IC) was discovered to have an impressive relationship with financial performance in Indian companies, capital employed efficiency being the most important component in this relationship (Weqar et al., 2020). Together, these studies imply the relevance of universal, holistic and context-specific financial measures in effectiveness evaluation across different markets, thereby collaborating with different sectors.

It is reported in research studies that intellectual capital (IC) as well as environmental, social, and governance (ESG) factors positively influence the financial performance of organizations across industries. Studies carried out on the pharmaceutical industries have shown both environmental performance and corporate social responsibility to have a significant impact on profitability (Qomariah & Nursaid, 2021), whereas the ESG indicators have been positively impactful on the financial ratios such as ROA, ROE, and Tobin's Q (López-Toro et al., 2021). In Indonesia, the banking sector had IC proven to have an effect on financial performance but did not state that all components had an equal effect (Soewarno & Tjahjadi, 2020). Likewise, in the Chinese manufacturing industry, an increase in IC would lead to increases in many financial performance measures significantly: NPM, GPM, ROI, ROA, and ROE (Xu & Liu, 2020). These results revealed that investments in intellectual capital and ESG factors could well be a part of the strategy for profitability. They can help to enhance profitability and market value for businesses in all types of industries. This is a collection of papers dealing with different aspects of financial performance and management in Indian firms. Kumar and Dua (2021) found

that environmental management practices enhance profitability and market value in the case of large Indian firms. Yameen et al. (2019) found that liquidity ratios significantly affect profitability in Indian pharmaceutical companies. Agrawal et al. (2024) took up the study of the performance of the manufacturing sector in India using fuzzy multi-criteria decision-making techniques and ranked return on assets (RoA) as the most significant of the measures. Although not specifically focusing on Indian research, Simões et al. (2011) reviewed the literature on measuring maintenance performance in the machinery and manufacturing sector, citing themes such as effective resource utilization and information systems support. These studies combined in one way or the other show how various financial and operational factors determine the performance of a company, and thus are worthy references from which managers and policymakers could benefit in the Indian context.

Co-research on mergers and acquisitions (M&A) and their results on financial performance has found both positive and negative ones. M&As would improve performance according to some studies but would have negative consequences according to others. Reddy et al. (2013) investigated the Indian M&A case using event study methodology and calculated accounting ratios for measuring short-term and long-term financial performances. To examine 138 M&A deals in the US and Europe, Borodin et al. (2020) found a deterioration of return on sales by approximately 20 percent in merged companies; the merger had not deprived them of the potential to be profitable. Environmental factors also mattered to the corporate performance. Riyadh et al. found that in their 2020 study, there is a negative correlation between green accounting costs and the financial performance of multinational enterprises. Waste identification and its overall profitability impact was pointed out by Doorasamy (2015) through the lens of Material Flow Cost Accounting (MFCA). These studies highlighted the complexity of factors that could affect corporate financial performance and the comprehensive analysis when the two are merged evaluation with environmental management strategies.

Many recent studies concentrate on the comparison of EVA to other traditional measures, emphasizing examining the extent to which EVA is better than traditional accounting measures in its effectiveness on corporate performance and value creation. EVA has been shown to perform better than most conventional accounting measures as an explanation of Market Value Added for publicly listed companies (Faiteh & Aasri, 2023). For unlisted ones though, one can calculate EVA using accounting beta as an alternative (Faiteh & Aasri, 2023). Research has shown that a combination of accounting variables and VBM metrics provides a more comprehensive evaluation of company performance (Oke & Ajeigbe, 2024). EVA was found to be more correlated with stock returns than other accounting based measures such as earnings, net cash flow, and residual income (Worthington & West, 2004). While EVA is the more popular one, many others including Cash Flow Return on Investment, MVA, and Cash Value Added equally contribute to the understanding of their respective participation in creating measurable shareholder wealth (Petravičius & Tamošiūnienė, 2008).

7. RESEARCH GAP

Over the years, the assessment process of an economy regarding financial performance has given rise to, and increasingly popularized, value-based measures such as EVA and MVA. They, however, have not been studied across different sectors and geographies uniformly. The chemical industry---especially in developing economies like India---showed a marked inconsistency about the way such measures apply and are understood. The literature is rich with ongoing debates and contradictions regarding the superiority of EVA and MVA over very traditional financial measures like ROA and ROE, pointing to a clear lack of consensus on the way to best assess shareholder value creation.

Intellectual capital and Environmental, Social, and Governance (ESG) practices have increasingly been acknowledged to play important roles in driving financial performance. Yet, research has concentrated mostly on banking, pharmaceuticals and manufacturing sectors. Indeed, research in this field is seriously limited for the chemicals sector, which is characterized by high capital intensity and considerable environmental impacts. For instance, limited attention has been paid to auditing quality, green accounting practices, and the interaction of these factors on value-based measures such as EVA and MVA, particularly in Indian contexts.

In addition, there is also a gap of comparative studies that will analyze EVA and MVA in terms of relevance and applicability between listed and unlisted organizations. In fact, though alternative methods of EVA calculation have been advanced for non-listed entities, they have not been empirically validated or adapted to any specific sector.

There is a clear gap in the literature with regard to the application in practice of EVA and MVA at a developing economy chemical industry level. Therefore, there is an urgent need for constructing an integrated evaluative framework combining, in one concept, traditional financial metrics with value-based indicators and qualitative factors such as

intellectual capital and ESG practices. This gap could result in a broader understanding of shareholder value creation as well as support better and more strategic financial decisions in the chemical sector.

8. CONCLUSION

While the original study has reviewed the extensive literature on the financial performance of selected and listed chemical companies using value-based measures, namely, Economic Value Added (EVA) and Market Value Added (MVA). The discussion of previous scholarly works indicates that although traditional financial metrics, such as ROA, ROE, and EPS, are widely adopted, EVA and MVA furnish much stronger insights into their shareholder value creation by tacitly incorporating cost of capital and market perceptions. However, these measurement tools remain little-heard-of and under-utilized in the chemical industry, especially in developing economies like India. It has also brought into perspective the emerging importance of intellectual capital, ESG practices, and audit quality as critical determinants of financial performance and long-run sustainability. These non-financials are being used in combination with quantitative metrics to assess the true value of a company. Hence, this paper argues for a more integrated and holistic evaluation framework for financial performance that combines traditional, value and qualitative dimensions. Not only do the gaps existing in the current literature get identified by this literature review, but it also lays the groundwork for future empirical studies probing further into the applicability and impact of EVA and MVA as value-driven decision-making tools in the chemical industry.

9. LIMITATIONS

There are many limitations which have been acknowledged in respect of the study. First and foremost, it is qualitative and thus without collection of primary data from empirical analysis; all of it is based on secondary data from literature. Thus, findings are mainly interpretation and theory, which may not show the actual performance in financial terms or that of any one company in particular. Secondly, the study is limited to some selected and listed chemical companies as discussed in the old study, so it's a limited portion of the entire picture of the chemical industry-global-the picture becomes smaller because it does not take in other unlisted and smaller firms. Thirdly, the scope of reading literature might be limited according to what is available or accessible as far as studies are concerned especially those that are published in non-English and are less indexed and lesser-read journals. The study probably excludes some relationships or causality between important aspects such as EVA, MVA, and intellectual capital, ESG, and audit quality, matters which are discussed in this study and would have been better understood through a statistical or case-based approach. Last but not least, insights from earlier research have a chance of not appropriating current issues and regulatory changes evident in the fast-changing financial markets and industry practices. In addition, all these limitations of the study indicate the imperative need for future empirical research works that will verify the theoretical insights of this paper.

10. FUTURE SCOPE OF THE STUDY

There are several ways this literature-based study can be extended into future research, based on its findings and limitations. First, there is much possibility for empirical studies using EVA and MVA across a larger sample of both listed and unlisted chemical companies, especially in emerging economies like India. Research in this regard can validate the theoretical insights presented here with quantitative analysis and statistical modeling. Second, future studies can attempt cross-country comparative analyses between traditional financial measures and value-based measures per sector in order to assess their relative effectiveness at measuring shareholder value. Third, with the increasing importance of non-financial indicators like intellectual capital, ESG practices, and audit quality, there is an opportunity for future research that builds integrated performance evaluation schemes taking into account both financial performance and qualitative factors. In addition, there is also room to research the long-term effect of sustainability and governance practices on EVA and MVA in environmentally sensitive industries like chemicals. This can further be enhanced by case studies and longitudinal research to understand how these value drivers change and evolve over time. Finally, this area could also benefit from using advancements in data analytics and AI toward the development of predictive models for financial performance using EVA and MVA to inform strategic decision-making. Together, these likely future directions contribute toward a more solid and holistic understanding of corporate financial health and value creation.

CONFLICT OF INTERESTS

None.

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