
AN EMPIRICAL RESEARCH ON SHAREHOLDERS' VALUE CREATION IN SELECTED COMPANIES

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Abstract

Shareholders' value creation concept is become so important for corporate world as it takes a place as one of the prime objective of the firm. Majority of the firms has already started focusing on shareholders' wealth maximization. Market Value Added is the best secondary performance measure as it indicates the market evaluation of the effectiveness with which a company's managers have used the limited resources under their control. In this study shareholder's value creation in selected Indian companies as measured by MVA. In this study researcher has taken dividend and capital structure as independent variable and MVA as dependent variable. Regression technique has been used in order to examine the impact of Dividend and Capital structure on Shareholder Value Creation. It is also found that majority of the companies are having positive MVA which indicates that these companies are not only thinking about profit maximization but also focusing on the objective of wealth maximization. It is also found that there is no significant impact of dividend and debt – equity ratio on shareholders' value creation as measure by Market Value Added.

INTRODUCTION

In today's competitive world, value and wealth creation for shareholders are among the most important goals of businesses (Largani, kaviani & Abdollahpour, 2012). Value for shareholders is created the moment a company manages shareholder returns that exceed the cost of equity (Fernandez, 2001). Shareholder's wealth is measured in terms of returns they receive on their investment. It can either be in forms of dividends or in the form of capital appreciation or both (Chauhan & Patel, 2013). Shareholder Value Creation is the returns generated by the company over and above the cost of capital (Sharma & Grover 2015). Every company has to focus their efforts on creating shareholder value to survive in strong competition. Value creation is a basic measure which is used for measuring the financial Sustainability of an enterprise. Value creation is a continuous process so company has to make effort to create, evaluate and sustain the value periodically.

Definition of Value Creation:

- Value creation is the Primary financial performance indicator for measuring and evaluating financial performance within the group".
- According to Beatric Nyiramahoro and Natalia Shooshia have defined shareholder value as the "Total economic value of an entity such as a company or a business unit is the sum of the value of its debt and its equity. This value of the business is named corporate value while the value of the equity portion is named shareholder value in the form of equation".
- The investor receives an amount in return excess than the money he invested in regular terms than its call a value creation.

Estimation of shareholders wealth is one of the difficult challenges faced by the analysts and researchers (Bhanawat & Chundawat, 2012). To measure the real value created by the firm various value-based



performance measures such as economic value added (EVA), market value added (MVA), cash flow return on investment (CFROI), cash value added (CVA), economic profit (EP), Shareholder value added (SVA), etc. have been developed over a period of time by various consulting (Bhasin & Shaikh, 2013).

One of the external indicators that give the utmost satisfaction to the investors is share price and, truly speaking, the Market Value Added (Reddy, 2014). MVA is the best peripheral performance measure as it indicates the market assessment of the effectiveness with which a company's managers have used the scarce resources under their control. (Prasad & Shrimal, 2015)

REVIEW OF LITERATURE:

Madhu Malik (2004) studied the relationship between shareholder wealth and different financial variables like Earning per share, Return on net worth (RONW), return on capital employed (ROCE) By using correlation analysis, it was concluded that there was positive and high correlation between economic value added and Return on net worth, return on capital employed.

Pratapsinh Chauhan (2012) found that the shareholders' value creation in the Indian petroleum industry. He analyzed the performance of the public sector firm and private sector firms of petroleum industry. EVA has been found to have significant correlation with Operating Profit, Net Operating Profit after Tax, Earning Per Share, Market Capitalization and Market Value Added figures of firms of both the sectors.

Parasuram (2000), examined Economic Value added as performance measuring tool for banking sector, as he studied some private sector banks, public sector banks, some foreign banks and old private sector banks. All strong indicators are considered in this study. According to this study, EVA is an important parameter for judging bank performance. Among all indicators, EVA has correlation only with Return on Assets and not with other measures.

Gordon Donaldson (1985) concluded that the importance of managing for better shareholder value by classifying value drivers and using the same to reduce the value gap by focusing on Return on Net Assets, growth, retention rate and debt equity ratio.

Reddy (2014) investigated financial performance and its impact on Market Value Added Approach in selected software companies in South India for one year period 2010- 2011. The researcher studied examined that variables like RONW, CAP, EPS, EVA, ROS, ROTA and Cash Profit are found to have significant effect on MVA.

RESEARCH METHODOLOGY:

- **Research Objectives**

- 1) To study the concept of Shareholder Value Creation
- 2) To measure Shareholder Value Creation as per Market value Added (MVA).
- 3) To study the impact of capital structure and dividend on Shareholder Value Creation.
- 4) To compare the company wise Shareholder Value Creation.

- **Hypothesis**

- H₀: There is no significant impact of capital structure and dividend on Shareholder Value Creation.
- H₁: There is significant impact of capital structure and dividend on Shareholder Value Creation

- **SAMPLE SIZE AND TECHNIQUE**

In this research, the researcher has selected five companies from pharmaceutical industry as per randomly convenient sampling technique. The companies have been selected in the study by considering the following criteria.

- ✓ The companies which have been taken for the study are listed in Bombay Stock Exchange (BSE)
- ✓ The data for the study has been collected from 2009-10 to 2013-14.
- ✓ Ten companies from pharmaceutical industry have been selected for this research i.e. Cipla Ltd., Dr. Reddys Laboratories Ltd., Sun Pharmaceutical Industries Ltd., Lupin Ltd., Cadila Healthcare Ltd.





- **Sources of Data:**

This study is purely based on secondary data. Data has been taken from Audited Published Annual reports, respective company web sites and ACE EQUITY database from IIM library.

METHODOLOGY

- **FINANCIAL TOOLS**

- ✓ **MARKET VALUE ADDED (MVA)**

Market Value Added = Market Capitalization – Net Worth

- **STATISTICAL TOOLS.**

Regression technique is used in order to study the impact of Capital structure and Dividend on Shareholder Value Creation.

For the purpose of comparing Shareholder Value Creation of various companies mean scores of Shareholder Value Creation were considered and the companies were ranked on the basis of those mean scores.

LIMITATION OF THE STUDY:

- This study is based on secondary data.
 - It is also restricted to some selected Indian companies from pharmaceuticals Industry.
 - There are number of determinants of Shareholder Value Creation but the present study only examined the impact of major determinants (Dividend and Capital structure) on Shareholder Value Creation.
 - There are number of techniques to measure Shareholder Value Creation but in this study only Market Value Added (MVA) technique is used.

TABLE: 1 MVA CALCULATIONS (Rs. in Cr.)

Company	2009-10	2010-11	2011-12	2012-13	2013-14
Cadila Healthcare Ltd.	9632.10	14115.92	13009.74	12271.34	17390.77
Cipla Ltd.	21160.639	19173.1245	16911.0095	21629.5775	20746.253
Dr. Reddys Laboratories Ltd.	15671.684	21743.366	23163.604	22276.874	34337.316
Lupin Ltd.	11918.73	15381.507	19925.20725	23313.30275	35012.946
Sun Pharmaceutical Industries Ltd.	31348.22	39072.47	51099.46	76959.58	111344.49

(Source: researcher's calculated data)

Interpretation

The above table shows the result of Market Value Added of selected companies for selected period. Generally the positive data of MVA presents that the companies are generating value and negative data shows that the companies are destroying value for shareholders.

All the selected companies are having positive MVA which indicates that these companies are not only interested in profit maximization but also giving importance of wealth maximization. If the company is creating Shareholder value it implied that the company is efficient in managing its resources as its profits.





TABLE: 2 Debt -Equity Ratio

COMPANY	2009-10	2010-11	2011-12	2012-13	2013-14
Cadila Healthcare Ltd.	0.37	0.27	0.50	0.61	0.44
Cipla Ltd.	0.00	0.07	0.00	0.11	0.09
Dr. Reddys Laboratories Ltd.	0.10	0.24	0.23	0.27	0.29
Lupin Ltd.	0.36	0.31	0.29	0.14	0.02
Sun Pharmaceutical Industries Ltd.	0.01	0.01	0.01	0.01	0.33

(Source: ACE EQUITY database)

TABLE: 3 Dividends (DPS in Rs.)

COMPANY	2009-10	2010-11	2011-12	2012-13	2013-14
Cadila Healthcare Ltd.	5	6.25	7.50	7.50	9
Cipla Ltd.	2	2.80	2	2	2
Dr. Reddys Laboratories Ltd.	11.25	11.25	13.75	15	18
Lupin Ltd.	13.50	3	3.20	4	6
Sun Pharmaceutical Industries Ltd.	13.75	3.50	4.25	5	1.50

(Source: ACE EQUITY database)

Impact of Capital Structure and Dividend on Shareholder Value Creation:

Although there are number of determinants of Shareholder Value Creation but the impact of major determinants such as Dividend and Capital structure is calculated. The capital structure is determined with the help of Debt-Equity Ratio.

The Impact of Dividend and Capital structure on Shareholder Value Creation is analyzed with the help of Regression Analysis. Shareholder Value Creation as dependent variable and Dividend and Capital structure as independent variable. There is variation in the calculated data, we applied LOG to remove such variation and then we applied regression techniques with the help of SPSS. Therefore the regression equation is formed as:

$$Y = a + b_1X_1 + b_2 X_2 + E$$

Where, Y = Shareholder Value Creation;

X1 = Capital structure

X2 = Dividend;

E = Error,

a = Intercept

b1, b2 = Regression Co-efficient

TABLE: 4 SUMMARY OUTPUT

Regression Statistics							
Multiple R	0.269781105						
R Square	0.072781845						
Adjusted R Square	-0.011510715						
Standard Error	22775.73137						
Observations	25						





ANOVA								
	df	SS	MS	F	Significance F			
Regression	2	8.96E+08	4.48E+08	0.863443288	0.43551307			
Residual	22	1.14E+10	5.19E+08					
Total	24	1.23E+10						
	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	37644.01326	8821.258	4.26742	0.000313977	19349.84428	55938.18	19349.84	55938.18
Debt - equity ratio	-24243.0478	27642.39	-0.87702	0.389950238	-81569.85652	33083.76	-81569.9	33083.76
dividend	-689.8058849	987.7865	-0.69834	0.492284043	-2738.349655	1358.738	-2738.35	1358.738

(Source: researcher’s calculated data)

The analysis shows that both Dividend and Capital structure have not influence on the Shareholder Value Creation. As the significant value is more than 0.05, therefore our null hypothesis is accepted that there is no significant impact of capital structure and dividend on Shareholder Value Creation. The overall model is significant as the p- value is 0.03. The value of R is 0.27 which shows low positive relationship between Independent variables and dependent variables. The value of R Square is 0.072 indicates that the 7.20 percent of variance is explained by dividend and Capital structure. It implied that approximately 92.80 percent variance will be explained by the rest of the factors which need to be study for further research. as the p-value of Dividend (0.49) not significant at 5 percent level of significance Therefore, there is no significant effect of Divided (p-value > 0.005) on Shareholder Value Creation but p- value of Capital structure (0.49) not significant at 5 percent level of significance. Therefore, there is no significant effect of Capital structure (p-value > 0.005) on Shareholder Value Creation.

Comparison of Shareholder Value Creation among selected companies:

To compare the Shareholder Value Creation of various companies, mean scores of MVA are considered and the companies are ranked on the basis of these mean scores.

TABLE: 5 ranking of selected companies on the basis of MVA

Company	Average MVA	RANK
Sun Pharmaceutical Industries Ltd.	61964.844	1
Dr. Reddys Laboratories Ltd.	23438.5688	2
Lupin Ltd.	21110.3386	3
Cipla Ltd.	19924.1207	4
Cadila Healthcare Ltd.	13283.974	5

The above table 5 shows the ranking given to selected companies on the basis of average Market Value Added. all selected companies in this research showed high wealth of shareholders. It indicates that companies are creating shareholder value at higher level. With the highest average value of 61964.844 secures first rank and With the lowest average value of 13283.97 Cadila healthcare Ltd. secures fifth rank in value creation as per MVA. All selected companies performance is satisfactory as this is not destroying the value of shareholders.

The above table also gives an idea about the ranking of the companies on the basis of MVA. It can help the shareholders in taking investment decision in future. The top ranked companies are creating shareholders value and generate wealth for shareholders. It implied that the major objective of these companies is to create wealth for its shareholders. The companies are giving highest importance to shareholders. Therefore the investors can invest into these companies to get the highest return.



**CONCLUSION:**

The companies which give importance on the Wealth Maximization principle for the shareholders, those companies will be able to attract the investors in future. Speculators are putting their well deserved cash in the organizations. It is the obligation of the organization the executives to build their riches. This study explains the concept of shareholders value creation and also the concept of financial performance tool measurement Market Value Added. This study found that there is no significant impact of Dividend and Capital structure on shareholders' value creation as per market value added. Further research can be done with different companies, different industry, different study period and with other factors, with other measurement tool of the financial performance.

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