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ECONOMIC VALUE ADDED, CAPITAL STRUCTURE, AND DIVIDEND: AN INTEGRATED FRAMEWORK FOR HEALTHCARE INDUSTRY

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Abstract

The healthcare industry, accounting for approximately 10% of global GDP, faces mounting pressure to optimize financial performance while delivering quality services. This study investigates the intricate relationships between Economic Value Added (EVA), capital structure, and dividend policy in the Indian healthcare sector. Focusing on 51 listed healthcare companies on the Bombay Stock Exchange (BSE), our research examines the impact of capital structure and dividend policy on EVA. The findings reveal that capital structure significantly influences EVA, while dividend policy has no substantial effect. This research contributes to the existing literature by providing valuable insights for healthcare managers to enhance financial performance, optimize resource allocation, and create sustainable value for stakeholders.

Keywords: *Economic Value Added (EVA), Capital Structure, Dividend Policy, Indian Healthcare Industry, Financial Performance, Strategic Decision-Making.*

INTRODUCTION

The healthcare industry is facing unprecedented financial pressures, driven by rising costs, regulatory changes, and increasing competition. To navigate these challenges, healthcare organizations must optimize their financial performance, ensure sustainable growth, and create value for stakeholders. Three critical financial metrics have garnered significant attention in recent years: Economic Value Added (EVA), capital structure, and dividend policy. Economic Value Added (EVA) measures a healthcare organization's true economic profit, considering the cost of capital. It provides insights into financial performance, helping managers identify areas for improvement. Capital Structure decisions determine the optimal mix of debt and equity financing, impacting financial risk and return. Healthcare organizations must balance the benefits of debt financing with the risks of default. Dividend Policy influences shareholder value and investor perceptions. Healthcare organizations must decide whether to distribute profits as dividends or retain them for growth initiatives. Understanding the relationships between EVA, capital structure, and dividend policy is crucial for healthcare managers to enhance financial performance, Optimize resource allocation, Make informed strategic decisions, Create sustainable value for stakeholders.

Despite its importance, existing research lacks an integrated framework specifically tailored to the healthcare industry. This knowledge gap motivates our study, which aims to explore the interplay between EVA, capital structure, and dividend policy in the healthcare industry.

BACKGROUND

The healthcare industry is a vital sector that contributes significantly to the global economy, accounting for approximately 10% of the world's GDP. As healthcare organizations strive to provide quality services while controlling costs, effective financial management has become crucial. Economic Value Added (EVA), capital structure, and dividend policy are essential components of this financial strategy. EVA measures a firm's true economic profit, considering the cost of capital. Capital structure decisions determine the optimal mix of debt and equity financing, impacting financial risk and return. Dividend influences shareholder value and investor perceptions. Understanding the relationships between these financial metrics is critical for healthcare managers to make informed decisions, optimize resource allocation, and enhance firm value.

RESEARCH GAP

Despite the importance of EVA, capital structure, and dividend policy, existing literature lacks an integrated framework specifically tailored to the healthcare industry. Previous studies have examined these concepts in

isolation or focused on other industries. For instance, studies have investigated the relationship between capital structure and firm performance (Modigliani and Miller, 1963; Myers, 1977) or explored the impact of dividend on shareholder value (Easterbrook, 1984; Jensen and Meckling, 1976). However, the healthcare industry's unique characteristics, such as regulatory environments, reimbursement models, and high research and development expenditures, necessitate a customized approach. This study aims to bridge this research gap by developing an integrated framework that examines the interplay between EVA, capital structure, and dividend policy in the healthcare industry, providing valuable insights for managers, investors, and policymakers.

Objective of the Study:

1) To understand the concept of Economic Value Added (EVA), Capital Structure and Dividend.
2) To calculate shareholders value creation through Economic Value Added (EVA).
3) To examine the effect of Capital Structure on Economic Value Added (EVA),
4) To examine the effect of Dividend on Economic Value Added (EVA),

Hypothesis of the Study:

To maintain methodological rigor, this study utilizes the null hypothesis framework. This approach assumes no significant effects or relationships, with hypothesis testing based on probability levels. To achieve the research objectives, the following hypotheses are formulated:

1) There is no significant impact of Capital Structure on Economic Value Added (EVA).
2) There is no significant impact of dividend on Economic Value Added (EVA).

Methodology:

Sample Selection:

This research investigates the Healthcare sector within the Indian context, leveraging data from the ACE Equity database, specifically focusing on companies listed on the Bombay Stock Exchange (BSE). Given BSE's status as the world's second-largest exchange by domestic quoted companies, this focus provides a comprehensive insight. A population of 173 BSE-listed Healthcare companies was identified, with the top 51 companies by market capitalization selected for analysis, contingent upon complete data availability. The resultant sample comprises 51 Healthcare companies, as elaborated in the subsequent table.

Sr. No.	Company Name	Sr.No.	Company Name	Sr .No.	Company Name
1	Sun Healthcare Industries Ltd.	18	Panacea Biotec Ltd.	35	Themis Medicare Ltd.
2	Dr. Reddys Laboratories Ltd.	19	JB Chemicals &Healthcares Ltd.	36	IOL Chemicals &Healthcares Ltd.
3	Cipla Ltd.	20	Shilpa Medicare Ltd.	37	Hester Biosciences Ltd.
4	Lupin Ltd.	21	Indoco Remedies Ltd.	38	Lincoln Healthcares Ltd.
5	Cadila Healthcare Ltd.	22	Hikal Ltd.	39	Wintac Ltd.
6	Divis Laboratories Ltd.	23	Suven Life Sciences Ltd.	40	Gufic Biosciences Ltd.
7	GlenmarkHealthcares Ltd.	24	Vivimed Labs Ltd.	41	Ambalal Sarabhai Enterprises Ltd.
8	Wockhardt Ltd.	25	Bliss GVS Pharma Ltd.	42	JagsonpalHealthcares Ltd.
9	AurobindoPharma Ltd.	26	TTK Healthcare Ltd.	43	Celestial Biolabs Ltd.
10	Biocon Ltd.	27	MarksansPharma Ltd.	44	Coral Laboratories Ltd.
11	Torrent Healthcares Ltd.	28	Granules India Ltd.	45	Ortin Laboratories Ltd.
12	Ipca Laboratories Ltd.	29	Amrutanjan Health Care Ltd.	46	SanjivaniParanteral Ltd.
13	Novartis India Ltd.	30	Aarti Drugs Ltd.	47	Natural Capsules Ltd.
14	FDC Ltd.	31	Zenotech Laboratories Ltd.	48	Makers Laboratories Ltd.
15	Unichem Laboratories Ltd.	32	RPG Life Sciences Ltd.	49	Mangalam Drugs & Organics Ltd.
16	NatcoPharma Ltd.	33	AnuhPharma Ltd.	50	Advik Laboratories Ltd.
17	Ajanta Pharma Ltd.	34	DIL Ltd.	51	Hindustan Bio Sciences Ltd.

Duration of the Study:

The study is conducted on the basis of five years. I.e. From 2009-2010 to 2013-2014.

Collection of Data:

For the purpose of the study, secondary data is used.

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For obtaining the secondary data the following sources are as follows:

(iv) Published financial reports of the company i.e. 2010-2014
(v) ACE EQUITY database from IIM library
(vi) Website of selected companies and Reserve Bank of India

Method: Methods used for measurement of value creation are as follows:

Formulas for Calculations:		
1)	Economic Value Added (EVA)	= NOPAT – [Invested Capital × WACC] **Step –1** NOPAT = Net Profit + Interest on Borrowings – [1- Tax Rate] **Step –2** Invested Capital = Paid – up Capital + Reserves + Total Borrowings **Step –3** WACC = Paid –up Capital × Ke + Borrowings × Kd Where, (1) Cost of Debt (Kd): = Interest on Borrowings (1- Tax Rate) * 100 (2) Cost of Equity (Ke): Ke = Rf + β (Rm - Rf) **Rf -** The researcher has taken 365 T-Bills rate of particular year from Reserve Bank of India Websites as a risk free rate of return. **Rm**- The market rate of return is calculated based on market Index. **β -** Beta is the risk free coefficient which measures the sensitivity of the security returns of a particular security to change in the market returns. Beta has been calculated based on SENSEX for each year separately. **Beta (β) =** $\frac{N\Sigma XY - (\Sigma X)(\Sigma Y)}{N\Sigma X^2 - (\Sigma X)^2}$ **X** = Monthly Closing Return on the Stock Market Indices (BSE) **Y** = Monthly Closing Return on Share Prices of a particular company **N** = No. of Months in a year

Statistical Tools and Techniques:

Objective	Model / Method	Variable Description	Statistical Tools & Techniques
To examine the effect of Capital Structure on EVA.	**MODEL 1)** **EVA = α + β. D/E Ratio + ε**	**DEBT EQUITY RATIO**	**Regression Analysis**
To examine the effect of Dividend on EVA.	**MODEL 2)** **EVA = α + β. Dividend payout Ratio + ε**	**DIVIEDEND PAYOUT RATIO**	**Regression Analysis**

Significance of the Study:

This study, "Economic Value Added, Capital Structure, and Dividend: An Integrated Framework for Healthcare Industry," addresses a critical knowledge gap by investigating the intricate relationships between Economic Value Added (EVA), capital structure, and dividend policy specifically within the healthcare sector. By exploring these relationships, this research provides valuable insights for healthcare managers, investors, and policymakers to optimize financial performance, enhance sustainability, and inform strategic decisions.

EVA is crucial as it measures a healthcare organization's true economic profit, revealing areas for improvement. An optimal capital structure is vital for balancing financial risk and return, while a well-designed dividend policy influences shareholder value and investor confidence.

The findings of this study will enable healthcare organizations to better allocate resources, manage financial risk, and create shareholder value, ultimately contributing to improved healthcare outcomes and industry stability. Furthermore, this integrated framework will serve as a benchmark for future research, facilitating the development of tailored financial strategies that cater to the unique challenges and opportunities of the healthcare industry.

LIMITATIONS

- The study is limited to selected companies of Indian Healthcare Industry.
- The study will base on Secondary Data.
- The study will limited to one techniques of shareholders value creations.

LITERATURE REVIEW

EVA and Financial Performance:

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Economic Value Added (EVA) has been widely recognized as a superior measure of financial performance (Stewart, 1991; Grant, 2003). Studies have shown that EVA is positively correlated with stock price performance (Bao & Bao, 2001) and is a better predictor of financial distress than traditional accounting measures (Lau, 2005). In the healthcare industry, EVA has been used to evaluate hospital financial performance (Cleverley & Cleverley, 2005). However, research on EVA's application in healthcare is limited, highlighting the need for further investigation.

Capital Structure and Healthcare:

The capital structure of healthcare organizations has been examined in various studies. Researchers have found that healthcare firms tend to follow a pecking order theory, preferring internal financing over external debt (Jensen & Meckling, 1976; Myers, 1984). Additionally, studies have shown that healthcare organizations with higher debt levels experience reduced financial performance (Murray, 2003). A study by Trujillo et al. (2014) found that nonprofit hospitals' capital structure decisions are influenced by regulatory and reimbursement factors.

Dividend Policy and Shareholder Value:

Dividend policy has been extensively studied in finance literature. The residual theory suggests that dividends are paid out of residual earnings (Lintner, 1956), while the signaling theory posits that dividends convey information about firm performance (Miller & Rock, 1985). In the healthcare industry, research on dividend policy is scarce. However, a study by Patel et al. (2017) found that healthcare firms' dividend payouts are influenced by profitability and growth opportunities.

EVA, Capital Structure, and Dividend Policy:

Research on the relationships between EVA, capital structure, and dividend policy is limited. A study by Chen et al. (2018) found that firms with higher EVA tend to have lower debt levels and higher dividend payouts. In the healthcare industry, researchers have explored the impact of capital structure on financial performance (Trujillo et al., 2014), but the relationship between EVA, capital structure, and dividend policy remains unexplored.

Healthcare Industry-Specific Factors:

The healthcare industry is unique due to regulatory, reimbursement, and market factors. Studies have shown that healthcare organizations' financial decisions are influenced by Medicaid and Medicare reimbursement rates (Cleverley & Cleverley, 2005), as well as regulatory requirements (Trujillo et al., 2014). Additionally, research has highlighted the importance of considering industry-specific factors when evaluating healthcare organizations' financial performance (Murray, 2003).

TABLE: Calculation of Economic Value Added (EVA) (RS. in cr.)

COMPANY NAME	AVG VALUE OF EVA	COMPANY NAME	AVG VALUE OF EVA
Aarti Drugs Ltd.	22.4159	Jagsonpal Pharmaceuticals Ltd.	-5.2787
Advik Laboratories Ltd.	-1.2774	JB Chemicals & Pharmaceuticals Ltd.	-26.8423
Ajanta Pharma Ltd.	63.9521	Lincoln Pharmaceuticals Ltd.	-1.8577
Ambalal Sarabhai Enterprises Ltd.	-13.1062	Lupin Ltd.	741.2720
Amrutanjan Health Care Ltd.	-1.9177	Makers Laboratories Ltd.	-0.7409
AnuhPharma Ltd.	5.3472	Mangalam Drugs & Organics Ltd.	-4.1356
AurobindoPharma Ltd.	116.4213	MarksansPharma Ltd.	-52.6456
Biocon Ltd.	61.1696	NatcoPharma Ltd.	12.6317
Bliss GVS Pharma Ltd.	21.1074	Natural Capsules Ltd.	2.7559
Cadila Healthcare Ltd.	464.5903	Novartis India Ltd.	31.2661
Celestial Biolabs Ltd.	-3.7671	Ortin Laboratories Ltd.	-0.0060
Cipla Ltd.	309.8986	Panacea Biotec Ltd.	-108.8251
Coral Laboratories Ltd.	2.4373	RPG Life Sciences Ltd.	16.1118
DIL Ltd.	-1.2465	SanjivaniParanteral Ltd.	-2.1223
Divis Laboratories Ltd.	276.8357	Shilpa Medicare Ltd.	21.1638
Dr. Reddys Laboratories Ltd.	454.1975	Sun Pharmaceutical Industries Ltd.	29.9644
FDC Ltd.	74.8961	Suven Life Sciences Ltd.	22.1087
Glenmark Pharmaceuticals Ltd.	4.4452	Themis Medicare Ltd.	-5.5184
Granules India Ltd.	12.1815	Torrent Pharmaceuticals Ltd.	343.7738

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Gufic Biosciences Ltd.	0.9885	TTK Healthcare Ltd.	1.5516
Hester Biosciences Ltd.	3.7022	Unichem Laboratories Ltd.	41.0289
Hikal Ltd.	53.9900	Vivimed Labs Ltd.	-3.8098
Hindustan Bio Sciences Ltd.	-1.6550	Wintac Ltd.	-3.5307
Indoco Remedies Ltd.	16.4022	Wockhardt Ltd.	221.6885
IOL Chemicals & Pharmaceuticals Ltd.	0.8208	Zenotech Laboratories Ltd.	-18.4519
Ipca Laboratories Ltd.	205.8368		

(Source: researcher's calculated data)

Formulas for Calculations:	
Economic Value Added (EVA)	= NOPAT –[Invested Capital × WACC]

As per the EVA value Lupin Ltd., Cadila Healthcare Ltd., Dr. Reddys Laboratories Ltd., Torrent Pharmaceuticals Ltd., Cipla Ltd., Divis Laboratories Ltd. ,Wockhardt Ltd. ,Ipca Laboratories Ltd., AurobindoPharma Ltd. have created wealth for shareholders during study period. While some companies like Ortin Laboratories Ltd., Makers Laboratories Ltd., DIL Ltd., Advik Laboratories Ltd.,Hindustan Bio Sciences Ltd., Lincoln Pharmaceuticals Ltd., Amrutanjan Health Care Ltd., SanjivaniParanteral Ltd., Wintac Ltd., Celestial Biolabs Ltd., Vivimed Labs Ltd., Mangalam Drugs & Organics Ltd., Jagsonpal Pharmaceuticals Ltd., Themis Medicare Ltd., Ambalal Sarabhai Enterprises Ltd., Zenotech Laboratories Ltd., JB Chemicals & Pharmaceuticals Ltd., MarksansPharma Ltd., Panacea Biotec Ltd. have negative EVA which shows these companies are not good as per the shareholders' wealth.

Impact of Capital Structure on Economic Value Added (EVA):

Objective	**To examine the effect of Capital Structure on Economic Value Added (EVA):**
Model	**MODEL 1) EVA = α + β. D/E Ratio + ε**
Variable Description	**DEBT EQUITY RATIO**
Statistical Tools & Techniques	**Regression Analysis**

Variables Entered/Removed[b]			
Model	Variables Entered	Variables Removed	Method
1	TDE[a]	.	Enter
a. All requested variables entered.			
b. Dependent Variable: EVA			

Model 1:

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.126[a]	.016	.012	2.066779287318931E2
a. Predictors: (Constant), TDE				

ANOVA[b]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	174060.269	1	174060.269	4.075	.045[a]
	Residual	1.081E7	253	42715.766		
	Total	1.098E7	254			
a. Predictors: (Constant), TDE						
b. Dependent Variable: EVA						

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	81.371	14.851		5.479	.000
	TDE	-22.147	10.971	-.126	-2.019	.045

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ANOVA[b]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	174060.269	1	174060.269	4.075	.045[a]
	Residual	1.081E7	253	42715.766		
	Total	1.098E7	254			
a. Dependent Variable: EVA						

The depended variable under this model is EVA whereas independent variable is Debt Equity Ratio. Multiple regressions are used for the model which explains following observations.

1. The value of R^2 is 0.016 that is not nearer to 1 suggesting the selected variable have no significant impact of change on the Debt Equity Ratio. This explains that the dependent variable changed at 1.6% level due to the influence selected variable.
2. Result of ANOVA for the model shows significance value of 0.045 which is almost identical to the alpha thus, it signify that the model is insignificant.
3. The Coefficient table from the result also suggest to reject the null hypothesis as the p. value is also greater than 0.05.
4. The result of the model, ANOVA and t statistic shows that the Debt Equity Ratio has insignificant impact on EVA.

Impact of Dividend on Economic Value Added (EVA):

Objective	**To examine the effect of Dividend on Economic Value Added (EVA)**
Model	**MODEL 2) EVA = α + β. Dividend payout Ratio + ε**
Variable Description	**DIVIEDEND PAYOUT RATIO**
Statistical Tools & Techniques	**Regression Analysis**

Model 2:

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.071[a]	.005	.001	2.078139012338914E2
a. Predictors: (Constant), DPO				

ANOVA[b]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	54934.884	1	54934.884	1.272	.260[a]
	Residual	1.093E7	253	43186.618		
	Total	1.098E7	254			
a. Predictors: (Constant), DPO						
b. Dependent Variable: EVA						

Coefficients[a]						
		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	54.362	16.984		3.201	.002
	DPO	.706	.626	.071	1.128	.260
a. Dependent Variable: EVA						

The depended variable under this model is EVA whereas independent variable is Dividend Payout Ratio. Multiple regressions are used for the model that describes following observations.

1. The value of R^2 is 0.005 that is not nearer to 1 suggesting the selected variable have insignificant impact of change on the Dividend Payout Ratio. This explains that the dependent variable changed at 0.5% level due to the influence selected variable.
2. ANOVA's result for the model shows significance value of 0.260 which is almost identical to the alpha thus, it signify that the model is insignificant.

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3. The Coefficient table from the result also suggest to accept the null hypothesis as the p. value is also greater than 0.05.
4. The result of the model, ANOVA and t statistic shows that the Dividend Payout Ratio has no significant impact on EVA.

Findings as Per Economic Value Added (EVA)

As per the EVA value Lupin Ltd., Cadila Healthcare Ltd., Dr. Reddys Laboratories Ltd., Torrent Pharmaceuticals Ltd., Cipla Ltd., Divis Laboratories Ltd. ,Wockhardt Ltd. ,Ipca Laboratories Ltd., AurobindoPharma Ltd. have created wealth for shareholders during study period. While some companies like Ortin Laboratories Ltd., Makers Laboratories Ltd., DIL Ltd., Advik Laboratories Ltd.,Hindustan Bio Sciences Ltd., Lincoln Pharmaceuticals Ltd., Amrutanjan Health Care Ltd., SanjivaniParanteral Ltd., Wintac Ltd., Celestial Biolabs Ltd., Vivimed Labs Ltd., Mangalam Drugs & Organics Ltd., Jagsonpal Pharmaceuticals Ltd., Themis Medicare Ltd., Ambalal Sarabhai Enterprises Ltd., Zenotech Laboratories Ltd., JB Chemicals & Pharmaceuticals Ltd., MarksansPharma Ltd., Panacea Biotec Ltd. have negative EVA which shows these companies are not good as per the shareholders' wealth. The positive value of EVA presents that the companies are generating value and negative value shows that the companies are destroying value for shareholders. In this research out of 51 companies total 32 companies are having positive EVA from 2010 to 2014 which indicates that these companies are not only giving importance on profit maximization but also working on the objective of wealth maximization.

When company is creating Shareholder value it proved that the company is competent in managing its wealth as its profits are more than its cost of capital, and this way these companies are also able to attract the investors in future also. In this research 19 companies from the sample are having negative value of EVA. It shows that these companies are not creating wealth for shareholders. They are known as value destroyer. The result proved that these companies are not capable of control its cost of capital due to which their earnings are less than cost of capital. The management of the company has not done a good job for their shareholders.

Findings as per the capital structure, dividend:

Model Summary		*Source of Variation*	*SS*	*df*	*MS*	*F*	*P-value*	*Hypothesis Testing*
Capital Structure	**EVA**	Regression	174060.269	1	174060.269	4.075	.045[a]	Reject
		Residual	1.08E+07	253	42715.766			
		Total	1.10E+07	254	-			
Dividend	**EVA**	Regression	54934.884	1	54934.884	1.272	.260[a]	Accept
		Residual	1.09E+07	253	43186.618			
		Total	1.10E+07	254	-			

CONCLUSION

The third objective is to examine the effect of capital structure on Economic Value Added (EVA) and in this regard the following hypothesis is developed;
"There is no significant impact of capital structure on Economic Value Added (EVA)."

- For EVA the statistical analysis of R^2 and ANOVA suggests that the null hypothesis is rejected as the Capital structure may have significant impact on Economic Value Added (EVA).

The fourth objective is to examine the effect of Dividend on Economic Value Added (EVA) and in this regard the following hypothesis is developed;
"There is no significant impact of Dividend on Economic Value Added (EVA)."

- For EVA the statistical analysis of R^2 and ANOVA suggests that the null hypothesis is accepted as the p value is 0.260 which suggest that dividend have no significant impact on the Economic Value Added (EVA).

This study provides a foundation for further research, including extensions to companies from diverse industry groups and sectors, longitudinal analyses spanning 10 years or more, and the application of alternative measurement methods. Additional quantitative factors, such as macroeconomic indicators or firm-specific variables, could be integrated, while qualitative factors like organizational culture, governance, and regulatory environments could also be considered. Future studies could explore cross-industry comparisons, examine the impact of external influences like economic downturns or technological disruptions, and employ multi-method

approaches to provide a more comprehensive understanding of the complex relationships between Economic Value Added, capital structure, and dividend policy.

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