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Impact of Financial Leverage Variability on Economic Value Added: A Relational Model to Visualize Sustainable Growth of Business in the Long Run

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Abstract: EVA is a performance tool that aims to assess the value added to the economy. The genuine financial profit generated by a business. Such a measure is important for investors who seek to assess a firm's performance. Company has generated value for its shareholders, and it may be linked to its competitors for a rapid examination of how much value it has generated. Economic value addition is one of the independent variables included in the study; this is because it serves as an evaluation tool for determining the research's ultimate conclusion about the financial performance. Maximisation of EVA (which measures a firm's ability to generate profits over and beyond those needed to maintain its operations) is seen as the greatest strategy to do this capital. Firms with fixed expenses and a need for access to economy, long-term financing have seen an increase in the amount of leverage they can use. The data was analyzed using standard statistical methods including correlation coefficient in addition to Mean and SD and multiple linear regression analysis. The outcomes indicate that the negative association among financial leverage and EVA is larger than the negative connection between financial performance measures including such ROE and ROA, which have a lesser correlation with one another than financial leverage and EVA.

Keywords: Financial leverage, EVA, ROA, Financial performance, Economic profit.

1. INTRODUCTION

1.1 FINANCIAL LEVERAGE

Financial leverage, as defined by Ward & Price (2016), is the proportion of a company's annual assets that comes from debt financing as opposed to equity financing. Therefore, the amount of debt in a company's capital structure will increase in proportion to the leverage used by the company. According to Firer et al., (2018), capital structure is defined as the proportion of a company's total funding that comes from debt as opposed to equity investments in order to finance the company's operating activities.Financial leverage manages a company's amount of financial exposure to risk. Leverage is a mechanism that, depending on the manner in which a company finances its activities can generate the ability for the organization to be more lucrative over the course of time. On the other hand, this results in a greater exposure to risk as well as higher expenses in the short term. A corporation might take on debt in order to leverage its short-term position and improve its chances of capitalizing on an option.The best capital structure for a company should have a healthy mix of debt and equity, since this will have an effect not only on the company's market worth but also on the price at which its stock is traded on the financial market. Nevertheless, due to the significance that it plays in the financial success of a company, the ideal capital structure has garnered a lot of attention during the past several years (Mwendwa 2022).The use of financial leverage is favourable when the returns generated by the debt are higher than the interest costs associated with the loan. One scenario in which this might occur is one in which the profit generated by the factory that a firm has purchased is sufficient to cover the cost of the debt. A debt-to-equity formula, also known as a debt-to-assets formula, determines a firm's level of financial leverage by determining the ratio of total debt to total assets. When a firm has high leverage, this means that it has a substantial amount more debt than equity. This can both raise the chance of the business failing as well as the possible returns it could make. The use of financial leverage is open to anyone who has access to a loan.In this day and age of globalisation and the most challenging business world, the decisions that organisations make about their financing have a key influence in the maintenance of their profitability (Wei & Li 2022). Even though many different theories of financing have been developed over the course of time, none of

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these theories can offer a level of capital structure that is ideal. As a result, the question of which method of financing is superior has been up for discussion up to this point. This piques the attention of the reader in conducting additional research on this particular subject. A company has the ability to finance themselves with either short-term or long-term debt (Hayati et al., 2022). The decision to take on short-term debt is tied to questions of liquidity, whereas the decision to take on long-term debt is related to questions of how best to invest in fixed assets over the long run. To satisfy the requirements of the companies for investment, the companies need to have access to both stock and loan markets. As a result, there is a need for the optimum proportion of debt to equity, provided that the profitability is not affected.

1.2 EVA

Earnings after interest, taxes, amortization, and amortisation, or EVA, is a measure used to assess a business's long-term financial health. Its goals are twofold: to maximise returns for investors and to outline how the company may best use the funds given to it to reach its full potential. A brand's success or failure over time can be measured using Economic Value Added, a performance indicator based on the brand's genuine financial benefit (Khan & Ahmad 2022). It may be used for comparative study with industrialisation, which is helpful for investors who were hoping to learn the product's worth to them. Informed investors can make better decisions (He et al., 2022). To calculate EVA, take the after-tax profit from the business and deduct the cost of capital. Economic value added (EVA) is a method of estimating economic profit used in corporate finance. When a company has enough money to cover its operating costs and capital investments, it may start creating value for its shareholders. The EVA index, initially proposed inside the United States, soon gained popularity and was used as a tool of performance evaluation by a wide range of enterprises, notably Coca-Cola, Siemens, and many others. Xin'e et al. (2012) argue that EVA's incorporation has complemented the growth of the financial management idea, and that it is now widely acknowledged as the management approach at the heart of financial engineering. Almost all of the credit for this goes to EVA. EVA can serve as a beneficial productivity coaching tool in addition to a measurement instrument by including indicators of actions that benefit or hurt the company. For EVA to be useful in this setting, this is all that is needed (Bahri et al., 2011). An Economic Value Created is a popular tool for quantifying the benefits of an organization's efforts. To predict the market's reaction to EVA's debut, we put many event study methods to the test. We also look into how income, investments, or cash flow have changed over time, both prior to and after EVA was implemented. This is according to a group of researchers led by Grigorin (Grishunin et al., 2022). To begin, we show that there is no material abnormality in stock returns, either positive or negative, following the adoption of EVA. We then demonstrate that EVA is only adopted by companies after they have underperformed for a considerable period of time, and that performance metrics only improve gradually when EVA is put into place. As for the elements that affect the firm's capital investments, it appears that higher levels of debt are linked to the adoption of EVA since it benefits the managers, who in turn increase the firm's investment activity. We conclude that the implementation of EVA leads to a significant and positive change in cash flow measures (Antonius &Harjanto 2022). You can use EVA to see if a company is worth investing in and where it plans to use the money its shareholders have given it. It implies that a company should always take steps to maximise shareholder value and maintain the company's attractiveness. To rephrase, EVA shows how a company is actually doing. Besides being a useful indicator of a company's financial health, this metric also encourages top-level executives to weigh the value of their resources against their costs as they make strategic choices. However, this metric's computations could eat up a lot of time. "Economic value added" (EVA) is a relatively new concept used as a performance metric by businesses as well as the consultants who deal with such organisations. Value-added, in its broadest meaning, describes the additional worth created by an endeavour or action in the context of a business. EVA, which refers for "economic value added," is more commonly known as "economic rent." It's a widely used way for determining an organization's efficiency in terms of its use of available resources. The (EVA) was determined by deducting the profit made on an investment from the initial investment. Increases in EVA imply greater use of available resources. To calculate EVA, take the after-tax net operating profit and deduct the potential cost of the purchase made. Now you're down to the EVA. The foundation of EVA is the idea that a company needs to turn a profit after deducting the costs of running the business and the money spent on capital investments. It's possible to have a positive or a negative EVA. The outcome is hoped to be positive. As soon as managers notice a negative EVA, they should begin formulating plans to turn it positive. Because it takes into account the costs of equity or debt financing plus

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corrects for the some financial distortions that old accounting standards did not, economic value addition (EVA) is regarded as one of the most important contemporary performance assessments (Bognárová, 2017). The study concluded that a more accurate measure of the a company's financial results can be obtained by combining economic value-added with additional market value. When Kyriazis & Anastassis (2007) examined the Athens stock market, they utilised economic value added as a proxy of earnings growth and discovered that it explained a sizable amount of the variation of stock returns over 10 and five years. He concluded that institution's economic value added merely reflected its previous achievements; it provided no insight into its potential for future achievements. Taking a purely mathematical approach to resolving internal agency difficulties in decentralised decision making through the application of EVA or discounted cash flow techniques. Although the theory behind financial corporate profitability like the Return on The investment (ROI), Return of Owners' Equity (ROE), and also the Internally Rate of Return (IRR) is covered, it is essential to comprehend an EVA's numerical behaviour over a variety of circumstances (IRR). Enhanced Value Creation (EVC) is a technique for assessing a company's performance and its strategic planning based on the idea that a company is only economically viable if it generates returns and profits for its investors, which requires performance that really is above the cost of equity for the firm. The EVA is a useful indicator of business success. EVA makes managers less likely to succumb in to micromanagement. EVA's built-in cost for just using resources means that C-suite executives no longer need to keep track of working capital days, operating cash cycles, or production throughput efficiency as separate KPIs.

1.3 Financial performance, leverage and the impact of economic value added

One of the most significant objectives of organizations with regards to their corporate finance is to maximize shareholder value. In more specific terms, wealth for shareholders comes from two sources: dividends and appreciation of their investment (Bossman et al., 2022). After taking into account the effects of capital appreciation, the return on investment generated by the resale of equity will be greater than that generated by the initial capital investment. The rise in the value of the stock on the marketplace is the source of the increase in shareholders' capital. There is a connection between changes in internal and external market forces and fluctuations in stock values. Consequently, on the assumption that businesses are permitted to publish data, the interested parties of businesses will use financial data to evaluate the real earnings of the company and forecast its future revenue and profits. This is based on the fact that businesses are permitted to publish information.In spite of the fact that guidelines are utilized, the incorporation of EVA as a norm for internal controls would result in the formation of a motivational and efficient tool for corporate management. EVA is "a metric of residual income, which centers on the idea that an organization must produce an adequate risk adjusted profit on its investment on assets." The premise behind EVA is that a business needs to make a profit that is proportionate to the amount of risk it is taking on in (Tortella and Brusco, 2013). EVA was developed with the intention of reporting a statistic that is more comprehensive than earnings per share. This was achieved by looking at the extent to which a company had recouped its initial investment through its profit margins. EVA is helpful owing to the fact that "the primary financial goal of a company ought to be to enhance the wealth of its investors (Elmadhoun&Murtaja 2022).The company's financial performance serves as an indication of the level of success it has attained, and it may be understood as the outcomes that have been accomplished throughout the numerous endeavours that have been pursued (MukhlisandZahra, 2019). In this context, we might consider a company to have been productive if it has met the requirements and accomplished the goals that were established for it. In order to provide an evaluation of the degree to which specific time periods have been devoted to the development of the company. Many academics in the field of finance have come to the conclusion that financial leverage is the single most important factor among all of the other factors that can influence a company's profitability (Neville&Lucey 2022). It incorporates the concepts of management for the capital structure. The decision of the manager as to whether to create a debt-intensive or equity-intensive organisation, which will ultimately determine how the company's assets are financed, gives rise to the idea of capital structure formation. When it comes to financing their resources, the majority of the time, the management of the firm opts to utilise a combination of debt and equity to varying degrees. This is something that has been seen. Consequently, making the appropriate decision regarding the proportion of debt to equity in any firm is quite vital for the manager of that firm. Businesses that do not wish to borrow money in order to finance their assets are required to rely solely on equity financing. Because of this, these businesses don't have to pay any fixed fees, which show that there is no financial

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leverage with the company in question. Return on assets (ROA) and return on equity (ROE) are the two accounting metrics of firm performance that are employed the most frequently. Profitability is also an essential indicator of a company's level of success. Investors always anticipate having a healthy profit, which is why they keep a close eye on the capital mix of the companies they invest in because the composition of a firm's capital has an effect on the profitability of the business. If the companies can generate a profit, investors will be interested in purchasing their stock, which will result in an increase in the value of the companies. Companies with high levels of profitability are able to weather adverse economic shocks as well as other external hurdles and problems. Therefore, the profitability of businesses as a result of leverage is primarily of concern for two parties. The first group, known as equity holders, receives compensation in the form of dividends and a growth in the value of their stocks. The second group, called as debt holders, is repaid by a corporation by way of interest and the purchased principal. The philosophies of finance offer a variety of interpretations of the relationship that exists between leverage and profitability. Additionally, there is a variety of empirical evidence indicating a positive, a negative, or even a non-existent or weak connection among leverage and profits.According to (Setiyawan&Nurwulandari 2022) EVA can only be calculated for a specific period of time, and therefore cannot be used to forecast the performance of a specific business in the future. In addition, obtaining this measurement can be difficult for a company that is in the process of reorganising its business or that is considering making significant financial investments. Through the generation of a favourable financial performance, the efficacy of corporate management as well as the efficiency with which resources are utilised has a direct impact on the economic growth of the nation. Because of this, doing an analysis of the financial performance of enterprises is of utmost significance and importance for management, who are tasked with ensuring the continued viability of the business and expanding its market share. However, there are a variety of indications that may be used to gauge the success of a company's finances. In most cases, a company's financial performance was evaluated based on its capacity to turn a profit. As a result, businesses are accustomed to relying on traditional financial indicators to evaluate the performance of their operations. According to (Srour, 2022) ROA, ROE, and ROI are some of the traditional measures of profitability. However, modern studies show that non-classical elements affect the global status of an economic system at a given period. Classical indications are derived from the value that a company receives from its customers, but non-classical indicators are based on the value that a company creates for its customers. Non-classical indicators are therefore more appropriate than classical indicators.The topic of financial performance indicators piqued the interest of a large number of scholars. There has been a significant shift in the way that many of these indicators are used as performance indicators over the course of history. Previously, the emphasis was placed on accounting revenue and profits; today, however, the emphasis is placed on metrics that sidestep criticism of financial income and profits, such as asset and equity return ratios. There is a lot of discussion about whether or not traditional management accounting measures, (ROA), and (ROE) are sufficient or suitable. This is especially true in light of objections regarding their influence on stock market value and their inability to represent the true the company's worth. Additionally, traditional accounting measures tend to rely on projections in the valuation of financial disclosing standard deviation (Abu Wadi&SaqfalHait, 2016). On the other hand, Athganassakos (2007) found that across ten or five year time periods, changes in economic added-value, rather than changes in earnings, explained a significant amount of the variation in stock returns. He concluded that the institution's financial added value merely reflected its previous achievements; it provided no insight into its potential for future achievements. The relationship between economic value-added with market value-added for Indian care industry enterprises was examined by Ghanbari (2007) for a distinct study. According to the evidence he gathered, economic value added is a more reliable measure of performance than traditional measures, and a company's ability to increase the value of the stockholders' investments is the best predictor of its success.

2. REVIEW OF LITERATURE

2.1 EVA as a tool for performance measurement

Sura et al., (2022) studied the goal is to look into claims made by advocates of value added (EVA) who claim it outperforms more traditional measures of financial performance such as profit after tax (PAT), (EPS), (ROA), (ROE), as well as (ROI) derived from accounting principles in use in India's manufacturing industry (ROI). While doing so, the

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study will give data to back up this assertion. This report also examines the predictive power of a variety of many other performance metrics and the correlation between these indicators and stock returns. The conventional accounting-based measures of profit per share, returns on equity, and return on assets all fared much better than EVA in further thorough tests when describing overall performance of Indian manufacturing businesses. When compared to more conventional performance metrics, the additional information quality provided by EVA is not particularly helpful.

Slimene& Obeid (2022) compared added economic value (EVA) to other traditional measures of bank success, such as returns on assets (ROA) or return on equity (REE), to see if EVA may be seen as the most "genuine" indicator of Islamic bank success (ROE). Using panel data from 43 Islamic banks in GCC member countries from 2008-2017, we isolate the most important determinants of banking corporate profitability and evaluate EVA's efficacy as a performance indicator. Based on our findings, liquidity and capital patterns are just as essential as interest rate when it relates to predicting a bank's profitability. Although asset quality and the saturation index have a positive and substantial effect on the growth of shareholders' value, they have little bearing on the ROA and ROE of banks. The EVA is the most accurate way to evaluate productivity in the banking sector.

Prihatiningsih et al., (2022) studied that measure of Economic Value-Added metric is preferred over more conventional forms of performance measurement. This metric is distinct from others by taking into consideration invested capital, regardless of whether the capital was owned or borrowed. This metric is based on the creation of value for the company. In addition, research has demonstrated that increasing a company's Economic Value Added can improve both the overall success of the organization and the working performance of its management. This performance measure has both advocates and opponents, just like any other performance measure, because it influences the company's market value and its utilization contributes to the maximization of the wealth of shareholders. The much more important criticism leveled against him involves his dependence on profitability ratio in the income statement, regardless as to whether or not these remarks portray the exact success of the organization.

2.2 Impact of financial leverage on sustainable growth of business

Naumoski (2022) studied that expansion of businesses is always a hot issue of discussion, not just among managers of corporations but also among academic scholars. In order for a company to experience growth, it is necessary for the company to carry out capital projects that will expand its production capacity as well as its potential for earning money. However, the manner in which the expansion will be financed, in the form of capital investment, is of the utmost importance to the continued existence of the organization. It is possible to comprehend the expansion of the business by pondering the proverb "it takes money to make more money." The company's own resources, which ensure the company's continued financial viability over the course of the long term, are the most valuable source of funding for new capital projects. However, if the firm is unable to issue new shares, or if it simply does not wish to do so, then the corporation's sole remaining source of funding is its retained earnings. The amount of the company's earnings that are retained is a factor that can impede the business's expansion when seen in the context of its planned capital structure, which is expressed as a ratio between debt and equity. If the company does not intend to alter its current capital structure, then the increase of retained earnings will determine the proportion of extra borrowing that will be required. As a result, the one and only rate at which a corporation is able to grow is the rate at which it grows its retained earnings. That is the rate of growth that can be maintained over time.

Altahtamouni et al., (2022) analysed data from a subset of Saudi banks between 2010 and 2019 with the PRAT model as well as the fundamental model developed by Robert Higgins in an effort to establish whether or not those models have any influence on the rate of sustainable growth. The PRAT model, as outlined by Higgins, is a way to forecast a firm's long-term growth by analysing its profit margin, retention, asset turnover, or leverage. Research factors' associations were analysed using multiple regression models (REM). Sustainable development was found to be affected by each of the variables in the PRAT model. Long-term development is also affected by the return on equity and the proportion of earnings kept in the company.

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Obaid&Jassim (2022)studied to determine whether or not there is a relationship among debt and the capacity of Iraqi industrial firms that are publicly traded to remain solvent throughout 2010 and 2020.In addition, the study will analyses the significance of leverage and the influence it has on the promotion commercial joint-stock firms' ways to remain financially stable, and the delicate balancing act that must be performed between the numerous forms of leverage at their disposal.There are fourteen different manufacturers participating in the study community. In order to process the data, several financial formulas and statistical approaches were employed, and the findings were retrieved using programmes. Twelve industrial joint-stock businesses were chosen for this study. It is a beneficial effect that moves toward the same direction (an inverse relationship) as the necessity for businesses to rely on a study sample in order to determine the best possible mix of the funding sources available within their own organizations. This is accomplished by increasing both capital and retained income, as well as utilizing financial leverage in the form of loans, in order to create long-term financial sustainability.

Aydin&bilici (2022)studied to analyses the relationship between the financial performance of businesses that are active in the tourism industry and the sustainability of those businesses. The income reports of tourism industry whose frameworks listed in the stock markets of some industrialized nations between the years 2011-2019 have been used in order to accomplish this goal. The time period covered by this study is 2011-2019. In this analysis, we used the (ROA), (ROE), or (ROC) to measure a company's profitability (ROS). The interest rate to cost ratio (ICR), price to earnings ratio (P/E), cost to capital ratio (CTR), and leverage ratio were the independent variables utilized to depict financial performance (TDR). With the help of static panel data analysis, we looked at what elements have an effect on profitability. The study found that the interest cover rate as well as the asset rate of growth both affects the return of assets ratio. The rate of asset growth also affects the return on assets ratio.

Guo et al., (2021) studied the amount of financial leverage an organization has is one of the most critical factors in determining how efficiently it operates. This investigation inspects how a debt-financing decision affects corporate efficiency and the function that cash holding plays as a mediating factor. The data for this study are gathered from industrial companies in the three largest economies. The level of financial leverage has an inverted U-shaped relationship with the efficiency of the firm, according to our findings. This suggests that businesses with the optimal capital structure are the ones that attain high levels of efficiency. The amount of cash that corporations hold has a negative correlation with their levels of efficiency. We also provide evidence that firms that use a greater amount of financial leverage have a lower propensity to maintain extra cash balances, and we show that the presence of surplus cash balances substantially facilitates the connection among financial leverage and the companies' overall levels of efficiency. This indicates that the utilization of debt financing may have the ability to improve the effectiveness of the organization by successfully tapping into the free cash flow that the management would have otherwise used inefficiently. The findings have significant repercussions for corporate finance as a result of the fact that they emphasize the relationship between financial decisions and work efficiency.

Al-Rdaydeh et al., (2018) researched looked at the impact moderation technique has on the correlation between financial leverage and corporate performance. It was found that the impact of economic leverage on a company's performance as measured by asset return (an accounting metric) and market-to-book ratio is moderated by the dialogue between the firm's demanding strategy and its financial leverage. This result is a result of the two-way conversation between competitive and financial leverage (market-based measure). In conclusion, the data obtained backs up the theory that companies who pursue a cost leader strategy benefit from tax benefits and have improved operational effectiveness due to debt funding and/or debt covenants. This study sheds light on the relationship between financial leverage and company performance in emerging countries like Jordan, and the role that marketing advantage plays in the strength of the this relationship.

2.3 EVA and financial leverage

Dobrowolskiet al., (2022) studied on Economic Value Added (EVA) fully discussed how it may be used as a business statistic for companies. However, there have been no studies that either support or refute the claims that EVA is a

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universal metric or that it is possible to utilize EVA in volatile marketplaces in the same way that it is used in developed economies and those that are stable. Meanwhile, the green energy renaissance, which seeks to guarantee decarburization through the adoption of green innovations, necessitates large investments, and the realized projects must be suitably designed. Because these projects are carried by a wide range of enterprises, some of whom are based in developing countries, investors require trustworthy financial data. This study aims to determine whether or not EVA can be utilized as a universal criterion for valuing energy business proprietors. The research shows that using this indicator to make managerial decisions might lead to poor choices and lower stock value since it does not effectively mirror the limitations of developing markets. Therefore, a fresh evaluation of a financial indicators used in financial planning is required. The EVA system is included. The study fills this knowledge gap and demonstrates, using data from seven countries as well as the Euro Zone, why currently used EVA formula may not be an appropriate universal financial statistic.

Hassan (2022) aimed to examine, from an accounting and finance perspective, how the share repurchase process affects a company's bottom line. Over-the-long-run (OLS) multiple regressions were used on data from a sample of 66 Egyptian Stock Exchange-listed companies operating between 2009 and 2020. As measured by (EVA) and return on equity, share repurchases are a positive contributor to a company's bottom line (ROE). The results, on the other hand, suggest that stock buybacks have a negligible effect on ROA (ROA). The study found that the motives behind a company's leadership deciding to buy its shares had an effect on the company's economic performance. The study also discovered that the company's financial outcomes improved as it worked toward its declared goal of boosting its cash reserves. According to the authors of the study, increasing profits per share is a primary motivation for a company to make a stock purchase. Share repurchases have a larger impact upon EVA growth than returns on assets and return on equity, and this finding suggests that EVA is a useful measure of financial performance.

Adil et al., (2020) studied the corporation is serious about making money and expanding its reach, it must familiarise itself with financial and operating leverage. Leverage may be broken down into two categories: operating leverage, which measures how much an organisation can boost operating profit through increased sales, and financial leverage, which refers to the use of borrowing to acquire additional assets or funds. Each sort of leverage serves a useful purpose for corporations. There are both traditional approaches, such as return on assets (ROA), return on equity (ROE), and return on investment (ROI), and alternative measurements, such as economic value added (EVA) and valuation added (VAI), that may be utilised to characterise a company's efficiency. Although other studies have looked into how operational and financial leverage affects a company's success, they have done so by relying on more traditional performance metrics such as asset return and return on equity. This study departs from the norm by adopting a cutting-edge benchmarking approach called economic value added as a means of gauging effectiveness.

Awawdeh and Al-Sakini (2018)discovered that conventional accounting measurements, economic value-added, and market rate all had a substantial influence on shareholder value. The worth of the preferred equity to its shareholders functioned as the predictor variables, while the three classic accounting management measures of return on assets, return on equity, and earnings per share were included within the five independent variables. EVA was also included. According to the findings of the study, which made use of more traditional methods of regression analysis, the (ROA) and (EVA) both had a beneficial impact that was significant statistically on the process of maximizing shareholders wealth. According to the findings of the study, conventional cost accounting standards continue to be a key component when it comes to evaluating shares and enhancing profits for shareholders. This is the case even when performance management evaluation criteria have emerged, such as economic value added. According to the findings of the study, two key indicators of a successful business are its rate of profitability on capital and the commercial benefit it contributes to the community.

3.1 RESEARCH METHODOLOGY

The goal of the research project was to establish a connection among EVA and financial leverage so that implications can be drawn for both. Indian companies that are listed on the Stock Exchange are the focus of this analysis. Investors and other stakeholders, such as analysts, evaluate the enterprises to determine their level of development and are capable of

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making investment decisions and a valuation model that is essential to the research.The quantitative research design is utilized to investigate the manner in which the research objective will be attained through the processes of investigation, assessment, and evaluations.

3.1 Objective of the study:

- To ascertain the impact that financial leverage has on the EVA
- To examines the influence of EVA on the financial performance of the organization
- To examine whether a correlation exists between EVA, ROA, ROE, and FLEV

3.2 Data collection

The population of the 100 Indian corporations that were actively trading in the period of five years from 2016-2020 is the key subject of the research study. This information was acquired from the financial report.The investigation makes use of the secondary data that was collected from the financial statement as well as the form reports in addition to the relevant documentation. In addition to the several conventional performance metrics, such as ROA, ROE, and financial leverage a "value-based" metric is also taken into consideration.

3.4 Statistical tool

For the purpose of the data analysis, SPSS is utilized. For the purpose of data analysis, Mean, SD, Karl Pearson's correlation was applied. Multiple linear regression analysisis used for Estimating the nature of the connection that exists between independent variables and dependent variable.

4. RESULT AND ANALYSIS

Table 4.1 Descriptive statistics

Factors	**Mean**	**SD**
Financial Performance	0.6361	0.3643
EVA	0.0076	0.0170
ROA	0.3547	0.0423
Financial Leverage	0.5343	0.0065
ROE	0.2134	0.0045

Financial performance had an average of 0.6361 and a standard deviation of 0.3643, as shown in table 4.1. Average EVA was 0.0076 with a standard deviation of 0.0170, average ROA was 0.3547 with a variance of 0.0423, average leverage was 0.5343 with a SD of 0.0065, and average return on equity was 0.2134 with a SD of 0.0045.

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Table 4.2 Correlation matrix

Variable	FP	EVA	ROA	FLEV	ROE
Financial Performance	1				
EVA	-0.11595	1			
ROA	-0.622363	0.33864	1		
Financial Leverage	-0.593696	0.47218	-0.304872	1	
ROE	-0.861974	0.03003	-0.260473	-0.508071	1

Table 4.2 indicates that financial performance has negative correlation with EVA, ROA, FLEV and ROE (r= -0.11, r= -0.622, r= -0.593, r= -0.861) with respectively. EVA has positive correlation ROA, FLEV and ROE (r= 0.338, r= 0.472, r= 0.030) with respectively. ROA has negative correlation with FLEV and ROE (r= -0.304, r= -0.260) with respectively. FLEV has negative correlation with ROE (r= -0.508). The research study conducts an analysis of the financial performance as well as the economic value added (EVA). The financial performance factors, such as ROA, ROE, and LEV, will be essential in order to achieve the desired standardisation of the calculations. The findings indicate that the negative association among leverage and EVA is larger than the negative relationship between financial performance metrics such as ROE and ROA, which have a lesser correlation with one another than leverage and EVA.

Multicollinearity Test

In the field of study, It is crucial to check for multi - collinearity amongst some of the independent factors. This is because the existence of collinearity leads to a rise in the number of errors that are found in the study's results. In this particular investigation, multicollinearity emerges when the four independent variables—return on assets, return on equity, liquidity, and leverage—are interrelated. According to the statement, "if two or more independent variables are linearly related on each other, one among them must be included instead of both because it enhances standard errors, hence rendering the results biased."

Table 4.3 Multicollinearity test

	Tolerance	**VIF**
ROA	0.057	
ROE	3.043	-0.562
Liquidity	2.047	0.356
Financial Leverage	1.657	0.435

This research used a VIF-style test for multicollinearity. Based on this methodology, two variables are said to have collinear relationships if the variance inflation factor of either of them is more than 10. According to Table 4.3, the VIF values were as expected. Table 4.3's results demonstrate that there is no multicollinearity among any of the explanatory variables because the VIF for all factors is less than 10.

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Table 4.4 Multiple linear regression analysis

	Unstandardized Coefficients		Standardized Coefficients
	B	Std.Error	Beta
Constant	0.645	0.057	
EVA	-2.436	3.043	-0.562
ROA	0.315	2.047	0.356
Financial Leverage	0.423	1.657	0.435
ROE	0.315	0.4765	0.465

The investigation study performed an analysis of the financial performance as well as the economic value added (EVA). The regression models are shown in table 4.4. Various financial performance variables, such as ROA, ROE, and FLEV, would be essential in order to achieve the desired standardization of the estimates. The findings indicate that the negative association among financial leverage and EVA is larger than the negative connection between financial performance measures including such ROE and ROA, which have a lesser correlation with one another than financial leverage and EVA.

5. CONCLUSION

The goal of this study is to investigate the connection among EVA and the financial success of listed companies; hence the final results do not provide a comprehensive summary of the subject. The theory behind EVA is the economic premise that a company's value will rise only if it is able to generate a profitable surplus. Unfortunately, the computation is extremely subjective and doesn't reveal sufficient data to reveal the indications that EVA will be enhanced depending on performance. Nonetheless, when compared to the standard financial performance metric, it is still considered an internal performance component.More work has to be done in this area, especially for the benefit of businesses that use EVA as a performance metric. Therefore, it's crucial to question whether or not EVA should be employed as a second, more objective indicator of economic output Future research should take EVA, company size, capital use, or market return into account. The calculated value of EVA may be off so because rate of return and cost of capital was sensitive to certain factors that tend to change over time. There is no valid argument against the economic value addition; so, it is crucial for organizations to understand the concept of cost capital so order to lay greater focus on EVA as just a measurement for finance success.

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