

Economic and Environmental Value Added (EEVA): A Socio-economic Metric of Corporate Performance

This paper contemplates an innovative approach on how to create economically and environmentally sustainable organizations. It premises that providing the professional managers with the right kind of motivation can go a long way in bringing alive this vision of building the economically, socially and environmentally sustainable organizations. Towards that, it develops a new metric of corporate performance named as Economic and Environmental Value Added (EEVA). It is an improvement over the measure of EVA developed by Stern & Stewart. It amends the formula for EVA to recognize the net change in the value of environment caused by the firm in terms of its extraction or augmentation of the natural resources. Any increase in the value of the natural resource through actions like social forestry, purification of water, etc. should be added to the EVA; whereas any decrease in the value of the natural resource like deforestation be deducted from the EVA. The modified value of EVA may be called EEVA. It proposes to reward the managers on the basis of EEVA.

It also tries to answer the question of how to decide the value of the natural resources. It is suggested that, as for example, if a firm is cutting some trees for putting up its plant, then it should be required to make that loss of natural resource good by “buying the similar trees from the market”. The price paid for the same will be reflected in the reduced EEVA. The market would decide the price for it. The right price would be set by the players in the market as a result of supply and demand of the natural resource. Even the futures market can be developed for smoothening the supply-demand levels of the natural resource. This would induce some people/organizations to go into the business of growing trees, which would result into environmentally sustainable development of the business and the society.

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