

Value creation in European unlisted companies: evidence from the energy sector

Carmelo Intrisano

Full Professor of Corporate Finance, University of Cassino and Southern Lazio, Department of Economics and Law, Cassino, Italy.

E-mail: c.intrisano@unicas.it

Anna Paola Micheli

Associate Professor of Corporate Finance, University of Cassino and Southern Lazio, Department of Economics and Law, Cassino, Italy.

E-mail: a.micheli@unicas.it

Anna Maria Calce

PhD and Research Fellow in Corporate Finance, University of Cassino and Southern Lazio, Department of Economics and Law, Cassino, Italy.

E-mail: annamariacalce@unicas.it

Elisa Cafolla

PhD Student in Corporate Finance, University of Cassino and Southern Lazio, Department of Economics and Law, Cassino, Italy.

E-mail: elisa.cafolla@unicas.it

Abstract

This paper aims to propose an analysis of the economic and financial variables that most influence the corporate value. The study fits into the mainstream of the research devoted to the creation of value, a central theme of corporate finance. The analysis concerns the Energy sector, a strategic industry for the countries. This sector receives great attention from community policies, especially in terms of renewable energy. In fact, these represent the key to reducing emissions and achieving the ambitious goals for climate neutrality by 2050. For EU countries, the development of renewable energy is also a way to reduce dependence on energy imports and remain exposed to supply disruptions that can affect prices. The sample consists of 8,790 unlisted European companies belonging to the Energy sector and surveyed through the Amadeus Bureau van Dijk database during the 2020 year. Using the multiple linear regression model, we adopt ROE as the dependent variable, and liquidity ratio, leverage, size, cash flow on total asset and depreciation & amortization on total asset as independent variables. The result of our model indicates that value as measured by ROE is positively affected by leverage and cash flow on total asset while it is negatively affected by liquidity ratio, size and depreciation & amortization on total asset. Liquidity ratio, leverage, size and depreciation & amortization on total asset have a coefficient sign that is inconsistent with the explanatory power. Cash flow on total asset is the only one with a consistent coefficient sign, in that, there is a directly proportional and positive relationship between the indicator and ROE. This work contributes to the existing literature on the topic of value creation in European companies and in particular for unlisted ones active in the energy sector. The analysis has practical implication for managers called to designate corporate strategies as it identifies some explanatory variables of the ability to create value. The study has certain limitations, first of all the fact of basing the analysis on just one year and the consideration of Euro area as a whole. Hence the idea of further research developments based on homogeneous geographical areas, more extended time horizons and the inclusion of additional variables in the model.

Keywords: Value, financial performance, unlisted companies, Energy sector, corporate value

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1. Introduction

Since the 1980s, the concept of value creation has represented a paradigm shift in corporate management. The focus on obtaining short-term financial results gives way to shareholder value in strategic guidelines and long-term corporate objectives (Rappaport, 1999; Kurznack et al., 2021; Goedhart and Koller, 2020; Intrisano et al., 2020; Micheli et al., 2021). Value creation is not intended to benefit only shareholders or a specific stakeholder category, but to generate benefits for all parties involved in corporate life (Magill et al., 2015; Goedhart and Koller, 2020; Kurznack et al., 2021). Organizations perform well and create value when they implement strategies that respond to market opportunities by leveraging their internal resources and capabilities (Penrose, 1959; Andrews, 1971). Recent studies provide further support too for the re-evaluation of the fundamental concepts of stakeholder-based strategic management (Kern and Gospel 2023).

Ultimately, companies must be able to identify opportunities, implement strategies and adopt practices that allow to generate value in a continuous and sustainable manner, to become relevant and competitive in the long term (Kurznack et al., 2021; Goedhart and Koller, 2020; Evans et al., 2017). This paper aims to test what factors influence firm value in the European energy sector. The choice of this sector lies in its importance for the economic growth of each country. A fundamental condition for business development is a competitive, sustainable and high-quality energy supply. From 2015, the European Union (EU) is committed to the completion of the internal electricity and gas market. In order to reach this goal, great emphasis has been placed on energy efficiency, with considerable efforts to the promotion of renewable energy and to the reduction of greenhouse gas emissions (GHG). The power system of the EU is expected to see a more rapid transformation in the coming decade, with the new 2030 targets of 32% of renewables in final energy consumption, which translates into a renewables share of 50% in electricity. (IEA 2020) The International Energy Agency (IEA) expects wind power to become the leading fuel of electricity ahead of gas and nuclear well before 2025 (IEA 2020).

The paper is structured in four sections. The first one concerns the literature review, the second describe the data and methodology used in the analysis, the third section reports the results of the study and in the fourth section we state the main conclusions, limits and future development of the research.

2. Literature Review

Numerous studies have tried to identify the economic and financial variables that most influence enterprise value in different industries. In this section, we offer a review of the most significant contributions from the 1990s to the present. The analyses proposed in the literature, hardly consider the sample of unlisted companies in the entire survey.

A study apply the multiple regression analysis to a sample consisting of 45 companies belonging to the UK electricity sector found that market share, capital intensity, sales growth, working capital and decentralization showing a positive and statistically significant correlation in terms of corporate profitability (Grinyer and McKiernan 1991). Other scholars investigate on profitability in the New Zealand manufacturing sector during 1986-1987 finding that it is influenced by market power and production efficiency (Bennenbroek and Harris 1995). An analysis conducted on a sample consisting of 180,738 tax subjects for the period 1994/1995 - 1996/1997 shows that the variables size and capital intensity have a positive relationship with profitability (Feeny 2000).

Research on the determinants of profitability in the manufacturing and service sectors of Belgium, France, Italy and the United Kingdom over the 1993-2001 time frame highlights a positive relationship, greater in the former sector than in the latter, between market share and profitability and a negative relationship between size, debt ratio and profitability (Goddard et al. 2005). The study on the determinants of corporate profitability of Greek firms during 1995-2003 points out that the dependent variable is positively influenced by size, sales growth and investment and negatively by leverage and current assets (Asimakopoulos et al. 2009). The survey of Greek industrial companies focuses on the financial and non-financial factors most related to corporate performance. The sample under analysis consists of 102 companies belonging to 15 industries and listed on the Athens Stock Exchange during the time period 1997-2004. The 3 panel regression models, use ROS, ROE and ROA as dependent variables and leverage, liquidity, capitalization ratio, investment, age, size, location, exports and efficiency as explanatory variables. Results make evidence that the independent variables leverage, exports, size, location, and managerial competence ratio are positively and significantly related to firm performance

(Liargovas and Skandalis 2010).

Research on the variables influencing the profitability of the cement industry in India through a regression analysis on a sample of 28 companies listed on the Bombay Stock Exchange, for the period 2001-2008, shows that profitability is most influenced by liquidity, company age, operating profit ratio, interest rate, and inflation (Bhayani 2010). Analysis of the annual financial statements of 80 Italian water utilities for the period 2004 - 2008 points out that ownership structure, size, diversification, and geographic location have an impact on the performance of water utilities, albeit with varying degrees of significance (Guerrini et al. 2011). Regression analysis on factors influencing the business performance of Romanian companies belonging to the chemical industry during 1999-2009 shows that factors with positive impact on the dependent variable, (ROA), are inventory efficiency, debt level, leverage, and capital efficiency (Burja 2011).

A study on the determinants of profitability of 35 listed insurance companies in Pakistan over the 2005-2009 time frame shows that profitability, as expressed by ROA, is significantly and positively correlated with the size and capital volumes of the companies, significantly but negatively correlated with leverage and loss ratio, and, finally, unrelated to the age of the company (Malik 2011). The study of the Indian insurance industry on a sample of 23 companies for fiscal years 2008-2009, 2009-2010, and 2010-2011 shows that ROA is: significantly and positively correlated with size and liquidity; significantly and negatively correlated with leverage, premium growth, and logarithm of equity; and uncorrelated with underwriting risk (Charumathi 2012). Analysis on the variables that most affect Jordan's insurance companies in terms of financial performance on a sample of 25 insurance companies registered on the Amman Stock Exchange for the period 2002-2007 shows that company performance, as expressed by ROA, is positively influenced by leverage, liquidity, size, and managerial competence index in contrast to the variable age which has no influence and correlation with the dependent variable (Almajali et al. 2012).

The study of the Indian automotive industry through a sample of 48 companies for the period 1998-2012 shows that profitability depends on the variables: Operating Ratio, Current Ratio, Return on Capital Employed Ratio, Net Income to Total Debts Ratio, Inventory Turnover Ratio, and Long Term Debt to Equity Ratio (Mistry 2012). The assessment of the economic and financial performance of 90 Italian energy companies, during the three-year period 2008-2010, is conducted by analyzing financial statements and calculating five main economic, financial and liquidity indicators: cash flow, ROI, ROS, ROE and leverage ratio. The results revealed that companies in southern Italy show an even more pronounced deterioration in their performance in 2010 (Capace et al. 2013). The analysis of a sample of 17 industrial companies listed on the Muscat Securities Market over the time period 2006-2013 adopts ROA and profit margin as dependent variables of the regression model, while, average tax rate, size, growth, ratio of fixed assets to total assets, leverage and working capital as independent variables. The results demonstrate a positive and statistically significant relationship between profitability, firm size, growth, fixed assets and working capital and a negative relationship with average tax rate and leverage (Al-Jafari and Al Samman 2015).

Research on the financial performance of different energy companies in terms of their energy production mix over the 2011-2013 time frame is carried out by analyzing financial statements and calculating financial ratios grouped into four category: liquidity, debt, operating performance and profitability. Results report that the profitability of EU companies is highly correlated with the share of hydropower and new renewables, companies with a higher share of hydropower and renewables operate profitably, while those with a higher share of conventional power or renewables are more profitable (Boroza et al. 2016). The study on the determinants of financial performance of 29 listed companies belonging to the Pakistani energy sector for the period 2009-2016 demonstrate that ROA is positively affected by growth, size, risk, liquidity, and GDP, conversely, by leverage and age. ROE is positively affected by leverage, growth, liquidity, and GDP, in contrast, by risk, tangibility, and inflation rate (Ahmad and Malik 2017).

The evaluation of the financial performance of regulated firms in the Portuguese electricity market for the period 2010 - 2014, adopts the GMM estimation method to understand which items have an impact on ROE. The independent variables used in the model are: liquidity, leverage, Size, Cash flow to total assets, Depreciations to total assets, GDP and Consumer Confidence Index. Sargan's test and Wald's test prove that there is joint significance (Neves et al. 2019). The investigation of the differences or similarities between the financial performance of large and small and medium-sized energy companies is conducted out through an analysis of key financial indicators, descriptive statistical analysis and ANOVA. The indicators used are quick ratio, debt to equity ratio, asset turnover ratio, ROS, ROA and ROE. The authors conclude by noting that the size of energy suppliers does not significantly affect the performance of energy companies, and the other factors do not produce statistically significant differences in the financial structure of energy companies (Iovino et al. 2019).

The study on the determinants of financial performance of private and public sustainable energy producers from 16 emerging markets during 2000-2017 finds that ROE and ROA are positively affected by company size and the level of debt has an impact on ROA but not on ROE (Schabek 2020). Research on the effect of capital structure on the financial performance of major NSE-listed energy companies for the period 2011-2020 employs three regression models. The authors use the indicators of profitability, net profit margin, ROE and ROA, as dependent variables in their analysis. Results make evidence that the regression model adapts only in the case of net profit margin and ROE and not for ROA (Gopi et al. 2021). This study represents an evolution of previous research (Micheli et al. 2022), with a different perspective of analysis. The present research focuses on a sample of European unlisted companies with their own specificities compared to listed ones.

The assumptions underlying the adopted model are formulated taking into account the prevailing literature on the topic. The objective of this investigation is to understand how ROE relates to the explanatory variables considered. The research question can be formulated as follows: “Is there a relationship between ROE and the explanatory variables of value”?

3. Data and Methodology

The empirical analysis is based on unlisted European companies belonging to the energy sector, extracted using the Amadeus Bureau van Dijk database with reference to the year 2020 (specifically the data analyzed refer to Europe zone). Table 1 shows the territorial breakdown of the sample.

The NACE code for the energy sector is category D (35) - Supply of electricity, gas, steam and air conditioning. This research considers in particular subcategory D35.1 - Production, transmission and distribution of electricity.

The initial reference population turns out to be 28,499 unlisted European companies, from which companies with not readily available and anomalous data were excluded. To identify the outliers, we calculated the lower limit or lower inner fence and the upper limit or upper inner fence:

lower inner fence= $Q1 - 1,5*IQ$;

upper inner fence= $Q3 + 1,5*IQ$.

The final sample, subject to analysis, consists of 8,790 companies. The same variables as in the previous research are adopted (Micheli et al. 2022): ROE as dependent variable (Liargovas and Skandalis 2010; Neves et al. 2019; Schabek 2020; Gopi et al. 2021; Micheli et al. 2022) and liquidity ratio, leverage, size, CFTA and DATA as independent variables (Neves et al. 2019; Micheli et al. 2022). Table 2 shows the financial indicators used.

As in the prevailing literature (Grinyer and McKiernan 1991; Liargovas P. and Skandalis K. 2010; Ahmad and Malik 2017; Neves et al. 2019; Schabek 2020; Gopi et al. 2021), we adopt the multiple linear regression model for our empirical analysis.

The model can be written as:

$$Y = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \dots + \beta_p x_p + \varepsilon \quad (1),$$

Developing on the basis of model (1) the regression function of the present study, we obtain:

$$ROE = \beta_0 + \beta_1 LR + \beta_2 SZ + \beta_3 LV + \beta_4 CFTA + \beta_5 DATA + \varepsilon,$$

The null hypothesis predicts no relationship between the dependent variable and the independent variables:

$$H_0 = \beta_1 + \beta_2 = \dots = \beta_p = 0,$$

whereas, the alternative hypothesis states the existence of relationship between the dependent variable and the independent variables:

$$H_1 = \text{at least } \beta_p \neq 0.$$

Table 1. Number of companies by country (Absolute and percentual values).

Country	n° Companies	%
Austria	54	0.61%
Belgium	271	3.08%
Bosnia and Herzegovina	9	0.10%
Bulgaria	286	3.25%
Croatia	56	0.63%
Czech Republic	142	1.62%
Denmark	232	2.64%
Estonia	15	0.17%
Finland	209	2.38%
France	1,008	11.47%
Germany	384	4.37%
Greece	173	1.97%
Hungary	9	0.10%
Iceland	6	0.07%
Ireland	43	0.49%
Italy	2,547	28.98%
Latvia	5	0.06%
Liechtenstein	1	0.01%
Luxembourg	17	0.19%
Montenegro	8	0.09%
Netherlands	5	0.06%
Norway	442	5.03%
Poland	189	2.15%
Portugal	210	2.39%
Romania	37	0.42%
Serbia	55	0.63%
Slovakia	91	1.04%
Slovenia	63	0.72%
Spain	1,102	12.54%
Sweden	344	3.91%
Switzerland	92	1.05%
Ukraine	75	0.85%
United Kingdom	610	6.93%
Total	8,790	100.00%

Our elaboration on Amadeus data

Table 2. Financial indicators used.

<i>Variables</i>	<i>Definition</i>	<i>Source</i>	<i>Acronym</i>
<i>ROE</i>	<i>NET INCOME/SHAREHOLDERS EQUITY</i>	Amadeus Bureau van Dijk	ROE
<i>LIQUIDITY RATIO</i>	<i>CURRENT ASSET-STOCKS/CURRENT LIABILITIES</i>	<i>Our processing on data extracted from the database</i> Amadeus Bureau van Dijk	LR
<i>LEVERAGE</i>	<i>TOTAL DEBT/TOTAL ASSET</i>	<i>Our processing on data extracted from the database</i> Amadeus Bureau van Dijk	LV
<i>SIZE</i>	<i>log TOTAL ASSET</i>	<i>Our processing on data extracted from the database</i> Amadeus Bureau van Dijk	SZ
<i>CFTA</i>	<i>CASH FLOW/TOTAL ASSET</i>	<i>Our processing on data extracted from the database</i> Amadeus Bureau van Dijk	CFTA
<i>DATA</i>	<i>DEPRECIATION & AMORTIZATION/TOTAL ASSET</i>	<i>Our processing on data extracted from the database</i> Amadeus Bureau van Dijk	DATA

Our elaboration

Table 3. Regression analysis results.

	<i>Coefficients</i>	<i>Standard error</i>	<i>Stat t</i>	<i>Significance value</i>
Intercept	0.083	0.01	6.62	0.00***
LR	-0.001	0.00	-7.35	0.00***
LV	0.083	0.00	20.69	0.00***
SZ	-0.009	0.00	-5.10	0.00***
CFTA	1.810	0.02	89.22	0.00***
DATA	-1.809	0.04	-51.01	0.00***

***Sign at 0.01

R squared	0.48
R squared adjusted	0.48

Our elaboration

4. Results

For the year 2020, the final sample turns out to be 8,790 European unlisted companies.

The regression coefficients are respectively:

$$\beta_0 = 0.083, \beta_1 = -0.001, \beta_2 = -0.009, \beta_3 = 0.083, \beta_4 = 1.810, \beta_5 = -1.809,$$

Therefore, the estimated multiple regression model is:

$$ROE = 0.083 - 0.001 * LR - 0.009 * SZ + 0.083 * LV + 1.810 * CFTA - 1.809 * DATA.$$

Results of the regression analysis are shown in Table 3.

The R squared and adjusted R squared is 0.48, i.e., the five variables explain about two-fifths of the variance in the dependent variable. The predictors, taken as a set, account for 48% of the variance in ROE. The model is statistically significant because all explanatory variables have good significance value, as demostred by p-value. Result of our model indicates that value is positively affected by leverage and cash flow to total asset while is negatively affected by liquidity ratio, size and depreciation & amortization to total asset. The variable LR represents a company's ability to meet its short-term commitments through available assets and in a more liquid form, therefore, there should be a directly proportional relationship between the ratio and ROE. In the estimated multiple regression model LR has a coefficient with a negative sign, which is not consistent with the above approach. LV represents the debt situation, therefore, in a theoretical approach a company is considered less risky if it has less debt and more potential to create value; there should be an inversely proportional relationship between the ratio and ROE. In the estimated multiple regression model LV has a coefficient with a positive sign, which is inconsistent with the above hypothesis. The variable SZ calculated as a logarithmic function of total assets represents the size of the firm. Considering economies of scale, the basic assumption is that as size increases value increases; therefore, there should be a directly proportional relationship between the ratio and ROE. In the estimated multiple regression model SZ has a coefficient with a negative sign, which is inconsistent with the above explanatory power. The variable CFTA is an expression of the company's ability to create liquidity in relation to the size of assets, therefore, there should be a directly proportional relationship between the ratio and ROE. In the estimated multiple regression model CFTA has a coefficient with a positive sign and consistent with the above approach. The variable DATA is an expression of the turnover of fixed assets in the firm, so it can be approximated that the greater the investments the greater the potential to generate value; therefore, there should be a directly proportional relationship between the ratio and ROE. In the estimated multiple regression model DATA has a coefficient with a negative sign and inconsistent with the above explanatory power.

5. Conclusions and future research agenda.

This paper sought to ascertain which economic and financial variables influence corporate value in the Energy sector in Europe. The study cover the universe of unlisted European companies, surveyed through Amadeus Bureau van Dijk's database, for the year 2020. For sample construction, we excluded values that were unavailable for the reference period and outliers. This methodological approach produce a total number of 8,790 observations. Based on the literature review and for an advancement of previous research (Micheli et al. 2022), the variables used for the study addressed on listed companies were considered. The dependent variable under consideration is ROE, while, liquidity ratio, size, leverage, CFTA and DATA are the independent variables. LR, SZ, CFTA and DATA have a directly proportional relationship with ROE, whereas, LV has an inversely proportional relationship with the dependent variable. LR, LV, SZ and DATA have a coefficient sign inconsistent with the explanatory power of each. The variable CFTA is the only one with a consistent coefficient sign, in that, there is a directly proportional and positive relationship between the indicator and ROE. This study conducted on European unlisted companies belonging to the energy sector reaches different results compared to the previous research based on listed companies. In particular, for listed companies (Micheli et al. 2022) the variables LR, LV, CFTA and DATA are significant to the ROE with the exception of the SZ variable, while, for unlisted companies all the variables are linearly linked to the ROE. The analysis is useful for various stakeholders as it offers them various insights and useful for management in the energy sector for the implementation of strategic corporate choices. The limitations of the contribution can be found in only one year of analysis, in the use of only the accounting variable as the dependent variable and in considering the Euro area as a whole. A further development of this analysis could be the extension of the study based on homogeneous geographical areas to verify the results, more extended time horizons and the inclusion of additional variables in the model. Other developments of this analysis may involve extending the study to value creation, to be understood as the gap of ROE versus cost of capital.

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