Value drivers in Oil Companies: An Application of Variance Based Structure Equation Model

Rajesh Kumar
Institute of Management Technology, Dubai

Sujit K Sukumaran
Institute of Management Technology, Dubai

DOI: https://doi.org/10.7903/cmr.16165

Abstract

This study aims to provide new insights into how the financial and operational information relate to the market valuation of both independent and integrated oil companies. Hence, the study examines the value drivers for value creation in oil firms. Specifically, it explores the effect of investment, financing, and dividend decisions on value creation in oil-based energy firms. It is important to identify factors for value creation in stock market to design effective policies for wealth creation. The study was based on 82 oil and energy firms selected based on average asset sizes and revenues during the 2009-2013 period. PLS SEM methodology was used to analyze the effect of various exogenous latent variables on the endogenous latent constructs of profitability and value creation. Higher earning potential was associated with greater value creation for oil firms. Markets view high capital investments by oil companies positively, as these investments represent value creation for oil and gas firms. Higher cash flows lead to greater value creation for energy firms, and they might lead to greater profitability and hence greater value creation. Dividend policy of oil and gas firms also determines the valuation of oil firms. Higher dividend payout enhances the value of oil and gas firms. Profitability determines value creation in oil and gas firms. The study did not find statistically significant differences between integrated and independent companies or between privatized national companies and private national companies in value creation among oil firms. Keywords: Valuation, Investment Policy, Financing Decisions, Market Valuation, PLS, SEM To cite this document: Rajesh Kumar and Sujit K Sukumaran, "Value drivers in Oil Companies: An Application of Variance Based Structure Equation Model", Contemporary Management Research, Vol.13, No.1, pp. 31-52, 2017. Permanent link to this document: http://dx.doi.org/10.7903/cmr.16165

Author Biographies

Rajesh Kumar, Institute of Management Technology, Dubai
PROFESSOR OF FINANCE INSTITUTE OF MANAGEMENT TECHNOLOGY DUBAI, UAE

Sujit K Sukumaran, Institute of Management Technology, Dubai
Associate Professor Economics Institute of Management Technology Dubai

PDF

Published
2017-03-30

How to Cite
Kumar, R., & Sukumaran, S. K. (2017). Value drivers in Oil Companies: An Application of Variance Based Structure Equation Model. Contemporary Management Research, 13(1). https://doi.org/10.7903/cmr.16165

More Citation Formats

Issue
Vol. 13 No. 1 (2017)

Section
Accounting and Finance

Contemporary Management Research (ISSN 1813-5498) http://cmr-journal.org

Platform & workflow by OJS / PKP