

Chapter 9

Analyzing the Impact of the COVID-19 Pandemic on Value Creation: The Case of Euronext Lisbon

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ABSTRACT

Operating in an already challenging business environment, companies have faced yet another difficulty since March 2020, when the World Health Organization (WHO) declared a global pandemic situation related to the COVID-19 disease. The study's purpose was to analyze the value creation in Euronext Lisbon companies from the first semester of 2019 to the first semester of 2020. The aim was also to identify the areas with the most impact on value creation. To measure value creation, the indicator economic value added (EVA®) was used. The results revealed that the capacity to create value decreased for all companies. The variables included in the study that showed a statistically significant relationship with EVA® were operating profit, sales revenue, and cost of equity. This pandemic situation poses a significant threat to value creation, enhancing the idea that, more than ever, business management needs to focus on long-term value creation strategies.

INTRODUCTION

The first Coronavirus (COVID-19) disease cases were reported in December 2019 in Wuhan, China. Despite preventive and control measures promptly implemented, the number of cases increased exponentially, at an alarming rate, which leads the World Health Organization (WHO) to declare it a pandemic in March 2020.

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The responses to managing the effects of COVID-19 on public health have originated a crisis that is “a once-in-a-lifetime systemic shock to the global economy” (ACCA, 2020, p.7). The world is currently facing a global crisis with the potential to be a major economic recession due to this crisis that no one was prepared for. As a result, of the responses to managing Covid-19, society as we know it has changed, now including social distancing, the use of face masks, and working from home whenever possible. With a new normal due to changes in society and in dealing with a major crisis, several adaptations in the way businesses are conducted have occurred.

However, one thing has not changed, the purpose of an organization which is to create value. A company creates value when its operating profit is higher than the cost of the total capital invested.

There are several ways a firm’s value can be measured, one of them being economic value added. Economic value added corresponds to the value of the firm’s net operating result after tax deducted with the cost of capital invested in the firm (Grant, 2016).

Although management performance has shown significant advances, moving from a conventional posture of profit and profitability to a focus on value creation for the shareholders (Assaf Neto, 2014), they now once again need to adjust to a new reality. This trend focusing on shareholders’ value creation has been most noticeable in Anglo-Saxon countries, where managers have felt increasing pressure to maximize the company’s value in a context of value creation for their shareholders (Kijewska, 2016).

Having to manage the effects of COVID-19 on their business outcome, more companies now realize that they must take a long-term approach to their strategies (Strebel, 2020). A long-term approach means focusing on financial and non-financial value drivers. Companies must adopt a business model that ensures long-term shareholders’ value creation as well as stakeholders’ value creation.

According to Ernst & Young LLP, based on recent trends and the increasing adoption of long-term value creation strategies at many companies, there will be a shift in capital investment away from companies “that focus on shareholder value exclusively to those that seek to create value across a broader group of stakeholders including employees, consumers, society and shareholders” (Ernst & Young, 2020: 3).

Not forgetting their shareholders, managers need to widen their focus of value creation to include all their stakeholders. To ensure value creation, managers need to focus on other value creation stakeholders besides shareholders because they need motivated employees, satisfied customers, and suppliers that meet their needs. They also have to be engaged with the surrounding community, aware of its social responsibility. Adaptation to COVID-19 impact “is creating a sharper distinction between those chasing short-term financial wealth by all means possible, and those pursuing long-term shareholder value benefitting other stakeholders and societal needs. For the health of the western liberal economies, we must hope that the COVID-19 reset indeed prevails” (Strebel, 2020, p.3).

This study will be amongst the first to analyze the impact of restrictions imposed by covid-19 on value creation in a sample of companies, namely Euronext Lisbon. The study will also provide valuable insight focusing on fundamental changes in the way value creation is perceived due to changes in society’s new normal and how business is conducted while managing the effects of Covid-19. This study also aims to contribute to the development of academic research on the analysis of value creation.

The purpose of the study is to analyze the value creation in Euronext Lisbon companies. To measure value creation Economic Value Added (EVA®) was selected. The analysis includes an appreciation of the EVA® value evolution to understand how the changes caused by the effects of dealing with the Covid-19 pandemic have affected the companies’ value creation identifying the factors with the most significant impact on value creation.

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