

Accepted Manuscript

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PII: S0959-6526(16)31720-6

DOI: [10.1016/j.jclepro.2016.10.100](https://doi.org/10.1016/j.jclepro.2016.10.100)

Reference: JCLP 8291

To appear in: *Journal of Cleaner Production*

Received Date: 22 June 2016

Revised Date: 22 September 2016

Accepted Date: 20 October 2016

Please cite this article as: Ruggiero S, Lehkonen H, Renewable energy growth and the financial performance of electric utilities: A panel data study, *Journal of Cleaner Production* (2016), doi: 10.1016/j.jclepro.2016.10.100.

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Renewable energy growth and the financial performance of electric utilities: A panel data study

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Abstract

Electric utilities are under pressure to increase clean energy production. Although the adoption of renewable energy can improve the utilities' environmental performance, a fundamental question is if it also pays in economic terms. Building on the natural-resource-based view of the firm, we answer this question using two data analysis methods. First, we carry out a regression analysis of panel data from 66 large electric utilities covering the period 2005–2014, applying both a fixed and random effects estimator. Subsequently, we use the Granger causality test to explore possible causality links. Our results show a negative correlation at the firm level between renewable energy increase and short-term as well as long-term financial performance. More specifically, we find that an increase in renewable energy penetration Granger-causes a reduction of long-term performance. However, the results also show that a firm's carbon intensity moderates the relationship. When the focus is on the country level, we find that an increase in renewable power penetration is also negatively correlated to long-term firm performance, which might be explained by the combined effect of low power demand and overcapacity in developed economies. We conclude that the concept of organizational ambidexterity may supplement the natural-resource-based view of the firm for a better understanding of the relationship between an increase in renewable power and a firm's profitability.

Keywords: renewable energy, electric utilities, environmental performance, financial performance, natural-resource-based view of the firm

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