A Theoretical Review of Association between Financial Sustainability and Share Price

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In today’s corporate world, one of the most critical issues encountered by corporations is financial sustainability that may affect the overall profitability and performance of the firms. Financial growth is assumed as one of the most significant equity share value drivers, which required proper controlling. As sustainable financial growth problems are becoming progressively severe in the modern marketplace i.e. if companies have unrestrained growth of revenue, this can lead firms to serious financial problems.

Research Objectives

The intent of the study is to identify the relationship between financial sustainability and share price of the firm. Though, financial sustainability is a less established and new area in the field of corporate finance yet this concept is gaining importance now a days. This study attempts to cover the critical review of the emerging theories related to financial sustainability of firms and try to tackle the numerous dimensions of sustainability performance, their connections to corporate business models and processes, their likely constraints and tensions enforced on the main corporate objective of increasing shareholder value.

Methodology

The study design is exploratory. The study aims to identify the unexplored area and dimensions of firm’s financial sustainability that may have some direct or indirect impact on firm’s share price. For this purpose, an extensive literature review was conducted using Google scholar, scopus and web of science databases. The intention is to come up with some new interventions that may extend the share price literature into new direction.

Findings
Although there were no study published which directly assess the relationship between financial sustainability and share price of the firm. However, by critically reviewing the related studies it is shown help seeking that financial sustainability is one of the important factor that affects the share price of the firm. The prior studies documented that financial sustainability of the firm affects their financial performance (Amouzesh, Moeinfar, & Mousavi, 2011; Przychodzen & Przychodzen, 2013; Rahim, 2017; Subbareddy & Reddy, 2017). Moreover, Przychodzen and Przychodzen (2013) examined the influence of corporate sustainability practices on the stock price volatility. The findings of these studies suggest that unsustainable growth of firms may exert tremendous pressure on firm’s operational and financial characteristics, which may lead to affect stock price of the firm. Furthermore, Rezaee (2017) suggested that examining the impact of financial sustainability on market performance (stock prices) can be beneficial for the companies.

References


