

The Impact of Sustainability Reporting on Shareholders' Wealth in Capital Goods Industry Companies in Colombo Stock Exchange

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Abstract

Businesses around the world are recognizing the importance of maintaining transparency and accountability beyond the traditional domain of financial performance. This trend is in response to increasing public expectations on sustainability in corporate behaviour. However, concerning the market situation, firms particularly pay attention to their sustainability due to high competition and to survive in the market in long run. It has an impact on the business both directly and indirectly, and managers are always striving for maximum profitability to satisfy the shareholders' interests. The purpose of this study is to assess the impact of sustainability reporting on the wealth of shareholders. The study used secondary data of 21 public quoted companies in Sri Lanka in the capital goods industry over a period of five years from 2015 to 2020 and used descriptive statistics, correlation, and regression analyses to establish relationships between variables. The sustainability reporting for each company was computed by using a binary scoring mechanism built based on Global Reporting Initiative guidelines. The three independent variables used in the study were disclosures of environmental, social, and economic. The dependent variable, shareholders' wealth of the study was calculated through average share price and earnings per share. Six hypotheses were used to achieve study objectives, which were tested by the panel regression analyses. The findings of the study statistically confirmed that there is an impact of disclosures of environmental, social, and economic which designate the sustainability reporting on earning per share but no impact on the average share price. Therefore, the results of the study imply that engaging in sustainability reporting would prove to be quite beneficial in realizing increases in profitability, allowing them an alternate measure or strategy for potential gains to increase shareholder wealth.

Keywords: Average share price, capital goods industry companies, earnings per share, shareholders' wealth, sustainability reporting