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Do Stock Prices React to Illegal Corporate Behaviors? The Turkish Case

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Abstract

This paper investigates the influence of illegal corporate behaviour on the stock performance of Turkish listed firms. The sample covers all firms traded in Borsa Istanbul between the years 2007 and 2016. The sample of firms violating laws are collected from Capital Market Board of Turkey weekly bulletins. In total 101 cases of violation are detected for 72 firms. Relevant stock price and benchmark index price data is collected from Thomson Reuters DataStream. For the analysis, event study methodology is used. Event methodology is suitable to examine the impact of an event on the stock price of a firm.

Consistent with prior studies in this field originated from US markets and proliferated in other developed markets and emerging markets, the results of this study demonstrate the evidence of a negative effect of the announcement on the stock price of firms that conducted an illegal behaviour. Specifically, we find that risk-adjusted average abnormal returns of firms violating laws are significantly negative on the event day. In addition, for the 11-day event window cumulative average abnormal returns are significantly negative. Two other longer event windows, 21-day and 41-day, display similar results. This confirms that investors in Turkey penalize illegal corporate actions like their counterparts in other countries.

Keywords: Violations, Event Study, Financial Performance