

CORPORATE CRIME ANNOUNCEMENT EFFECTS ON STOCK PERFORMANCE: AN EMPIRICAL STUDY IN MALAYSIA

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An in-depth investigation of the effects of announcement of corporate crime on firm performance focusing on stock market performance among public enterprises in Malaysia has been conducted. A sample of 7 large, established public companies charged for committing corporate crime by Securities Commission from the period of 1999 to 2005 in Malaysia were identified and examined. Using the event-study methodology proposed by Rao (1997), monthly average abnormal returns (AARs) and cumulative average abnormal returns (CAARs) for the sample of 8 announcements of separate crimes ranging from 12 months prior to and 6 months after the announcement dates are determined. Empirical result indicates that the stock market is informationally inefficient in Malaysia and investors do react to announcement of corporate crime.

1. INTRODUCTION

Corporate crime based on the cases reported each year is not new in Malaysia and, the rate is on the upward trends. According to KPMG Malaysia fraud survey (KPMG, 2005), it is found that there has been an increase of 33% of the respondents experiencing fraud in their organization, as compared to the 2002 survey. In Malaysia, white-collar crime has caused losses of exceeding RM3.93 billion from the year 1999 until 2002, with approximately 6,000 cases being reported yearly (Clarence, 2005). Additionally, 36% of companies have suffered a total

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