White-Collar Crime and Stock Return: Empirical Study from Announcement Effect

Samuel Wei-Siew Liew and Chin-Hong Puah[♣]

Faculty of Economics and Business, Universiti Malaysia Sarawak, 94300 Kota Samarahan, Sarawak, Malaysia.

Abstract

White-collar crime continues to hit the headlines across Malaysia and it remains a serious issue influencing organizations globally. A share price event study is thus conducted on a group of public listed companies in Malaysia to examine the announcement effect of white-collar crime. The period of the study is from 1996 to 2010, covering both the Asian Financial Crisis in 1997/98 and the sub-prime mortgage crisis in 2008/09. Results indicate the existence of significant negative abnormal share price reaction on 10 trading days subsequent to the day of announcement. It means that the stock market in Malaysia is not efficient. However, it implies that the market possesses the power to discipline unethical companies as the shareholders drive down their value by disposing their stocks following the announcement.

***JEL Classification*:** G12; G14; K42

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1. Introduction

The term "white-collar crime" has been given many definitions by different criminologists at different times. It has first been popularized in 1939 by Edwin Sutherland, who was both a criminologist and a socialist. He defined the crime as one "committed by a person of respectability and high social status in the course of his occupation" (Sutherland, 1949). Viewed as being too restrictive, Edelhertz, a criminologist too, defined the crime as "an illegal act or series of illegal acts committed by non-physical means and by concealment or guile, to obtain money or property, to avoid the payment or loss of money or property, or to obtain business or personal advantage" (Edelhertz, 1970). Edelhertz's wider definition of the term is preferred for the purpose of this study and it can be used interchangeably with terms like "economic crime", "corporate crime", "business crime", "financial crime", and/or "commercial crime".

In a study carried out by Global Financial Integrity (GFI) (2011), illicit financial flows for the years 2000-2008 from developing countries record an average of US$1.26 trillion outflow annually. The main sources of the illicit money are corruption, kickbacks, tax evasion, and theft of cash. Malaysia is ranked fifth among

[♣] Corresponding author: Chin-Hong Puah, Department of Economics, Faculty of Economics and Business, Universiti Malaysia Sarawak, 94300 Kota Samarahan, Sarawak, Malaysia. E-mail: chpuah@feb.unimas.my