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Stock Market's Reaction to Disclosure of Environmental Violations: Evidence from China

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Abstract

The stock market's reaction to information disclosure of environmental violation events (EVEs) is investigated multi-dimensionally for Chinese listed companies, including variables such as pollution types, information disclosure sources, information disclosure levels, modernization levels of the region where the company locates, ultimate ownership of the company, and ownership held by the largest shareholder. Using the method of event study, daily abnormal return (AR) and accumulative abnormal return (CAR) are calculated under different event window for examining the extent to which the stock market responds to the EVEs. Furthermore, statistical significance of the difference in stock market reaction is compared between event firms with different characteristics. The relationship

between CAR and its impact factors is examined by multivariate analysis. The findings reveal that the average reduction in market value is estimated to be much lower than the estimated changes in market value for similar events in other countries, demonstrating that the negative environmental events of Chinese listed companies currently have weak impact on the stock market.

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Notes

1. Environmental violation events (EVEs) refer to environmental incidents caused by companies due to violation of existing Chinese environmental laws and regulations, resulting in serious pollutions or having potential environmental risk.
2. CSMAR is developed by the China Accounting and Finance Research Center of the Hong Kong Polytechnic University and the Shenzhen GTI Financial Information Limited.
3. That follows the industry classification codes promulgated by the China Securities Regulatory Commission in 2001.
4. Source: Wu, J.Q. Huaxia Times, <http://rich.online.sh.cn> (2010-10-09).

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