The Impact of Corruption News of Soe Officials on Abnormal Return

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Abstract. This study aims to examine the impact of corruption news of Indonesia State-owned Enterprise Officials on abnormal returns. From 2010–2020, at least 30 corruption cases were handled by the Tipikor (Criminal Act) court originating from SOEs. This study uses the event study research method with AR and CAR as variables and public SOEs as research objects. The results of this study show a significant negative abnormal return difference in certain pairs. There is also a significant negative abnormal return difference in CAR except for one day before and one day after the event.

Keywords: corruption · abnormal return · state-owned enterprises · event study

1 Introduction

Indonesia is currently included in the developing country category, with economic growth of 5.34% during 2009–2019. However, Indonesia is also ranked 40th on the corruption index issued by the CPI (Corruption Perceptions Index) in 2019 and ranked 37th in 2020 out of 180 countries surveyed (www.transparancy.org). In determining its ranking, the CPI evaluates it based on several factors: the economy, investment, ease of doing business, political integrity, and quality of democracy. With the decline in investment value in Indonesia based on the CPI, it is feared that it will slow down investment in Indonesia because the CPI contains information that is one of the factors for investors to invest. Information about corruption in Indonesia is very easy for investors to obtain, so stock prices change quickly according to the information available. Hou and Li [1] stated that developing countries are better known as corrupt countries where the characteristics are high levels of nepotism, corruption, informal relationships, and ineffective government structures. Indonesia itself has long declared war on corruption, starting from the era of President Soeharto with the ratification of Law RI No. 3 of 1971 concerning the Eradication of Criminal Acts of Corruption to the ratification of RI Law No. 31 of 1999. Even though from 2019 to 2020, Indonesia experienced an increase in its CPI rating, corruption in Indonesia has not been entirely resolved. This is proven by the many corruption cases in Indonesia originating from State-owned Enterprises (SOE). From 2010–2020, at least 30 corruption cases were handled by the Tipikor (Criminal Act) court originating from SOE. There are many types of corruption cases, including bribes, misuse of funds, embezzlement of funds, budget mark-ups, self-enrichment, and others handled by the

Corruption Court. The problems that will be formulated in this study are: (1) Is there an abnormal return for 5 days before and 5 days after the announcement of the corruption news on SOE Officials?; (2) Is there a significant difference in negative abnormal returns 5 days before and 5 days after the announcement of the corruption news on SOE Officials?; (3) Is there a significant negative cumulative average abnormal return difference 5 days before and 5 days after the announcement of the news on corruption in SOE officials?

2   Research Method

This study focuses on examining the presence or absence of abnormal returns and the differences in abnormal returns, average abnormal returns, and cumulative abnormal returns as a result of the news regarding the status of suspects of corruption in public SOE officials. More specifically, this research is included in the type of event study research, which is a method developed to measure, understand, and relate an event's effects on the market. This study used AR and CAR as the research variables. This study's object was state-owned enterprises divided into two by distinguishing the corruptor status of suspects and convicts. In total, there were 27 corruption cases with suspect status and 10 corruption cases with convicted status. This study used a 120-day estimation window and 5 days before and 5 days after the event as the event window. Data processing used spreadsheets to calculate abnormal returns, and SPSS software to perform descriptive statistical analysis and normality tests. This study used two types of tests to test the hypothesis: one-sample t-test and paired t-test. One sample t-test is used to test whether there is an abnormal return in the event window, while the paired sample t-test is used to test the difference in abnormal returns in the data 5 days before and 5 days after the event. There were two variables in this research. The first variable was abnormal return and the second was cumulative abnormal return. The value of the two variables can be positive or negative. This study used historical data on daily adjusted closing prices of SOE shares on the Indonesia Stock Exchange. The one-sample t-test was used to test whether there was an abnormal return in the event window. A paired sample t-test was used to test the difference in abnormal returns on data 30 days before and 30 days after the event.

3   Results and Discussion

The results of the normality test show that all data shows a significance value greater than 0.005, which means that the data is normally distributed. The results of testing the hypothesis using the one-sample t-test show no abnormal returns 5 days before and after the event on research objects with the suspect and convicted status. While the results of the hypothesis testing using the paired sample t-test show a difference in abnormal returns 5 days before and after the event (Table 1).

The testing results using the one-sample t-test are that H1 is rejected and H0 is accepted, signifying no significant negative abnormal returns 5 days before and 5 days after the event. There is no abnormal return during the event window because the SOE corruption case, which is the target population, is an ongoing corruption case. When

Table 1. Paired t-test of abnormal return.

Pair	t	Significance
Min3-Plus4	3.140	**

the SOE corruption case becomes known to the public, the corruption case will become headline news in various print, electronic, and online media because access to news is very easy for the public, both from official and unofficial sources; the public can consider many things before making a decision. This decision also includes looking into the future, whether or not the SOE officials are actually proven to be involved. Another reason is that ongoing corruption cases take a long time, from being suspected of corruption to being named as suspects and charged by the Tipikor Court. Due to ongoing cases and a long time, public interest in SOE corruption cases has decreased, so there are no abnormal returns during the event window (Table 2).

The results of this test are supported by Puah et al. [2] and Tay et al. [3], whose research did not show any significant abnormal returns. Even though the abnormal return value is not significant, the results of both studies show that news about corruption is known to the public before official news is released to the public. So when the official news is released to the public, there is no surprise effect because the public already knows the news first. Puah et al. [2] said that when the public first know the news, the stock price declines until the company receives an indictment from the court. Tay et al. [3] said that there were no significant abnormal returns during the study period due to the uneven distribution of information. This research is also supported by Kim et al. [4], where there is no significant abnormal return when an event occurs (Table 3).

Hillier and Loncan [5] showed that prices significantly decreased for 2–5 days after the news was circulated. The results also said that corruption was one of the reasons for the decline in stock prices a few days after the event. The results of this study research are also in contrast to the research of Shen et al. [6], where companies that support the government will have positive abnormal returns and companies that do not support the government will have negative abnormal returns. Based on the research of Shen et al. [6], it can be concluded that the political relationship between government and companies does exist and tends to be the beginning of an exchange of power or strength for the benefit of each party. There will be a trade-off in every decision, and bribery is one way.

Table 2. Paired t-test Cumulative of Abnormal Return.

		t-stat	Sig
Pair 26	min5 - plus5	2763.565	**
Pair 27	min4 - plus4	2162.951	**
Pair 28	min3 - plus3	1649.286	**
Pair 29	min2 - plus2	1650.286	**
Pair 30	min1 - plus1	1.997	

Table 3. Test results of paired t-test Cumulative Abnormal Return Convicted Object

	t stat	Sig. (2-tailed)
min5 - plus5	489.376	0.000
min4 - plus4	496.274	0.000
min3 - plus3	1146.218	0.000
min2 - plus2	5033.340	0.000
min1 - plus1	2.000	0.184

With bribes, government policies become more predictable and reduce the uncertainty experienced by companies [7].

The results of testing using the paired sample t-test on hypothesis 2 are H1 is accepted and H0 is rejected. That is, there is a significant difference in negative abnormal returns 5 days before and 5 days after the event. With a significant negative result, it indicates that the news has been known to the public and the market before the news was officially circulated. This means that the market does not fully react to information on corruption by SOE officials that is circulating because stock prices do not fully reflect all available information. In addition, there is no difference in abnormal returns during the study period because all corruption cases that were the target of the research population are ongoing cases, so there is no shock effect on the public. The public considers that the ongoing case takes a long time, from being named an SOE official as a suspect to receiving a sentence from the court. Because of this long time, the public has lost interest in following the corruption cases of SOE officials [4].

In hypothesis 2, the study results show significant negative AR was only in suspect status. In the legal process, all corruptors have been named suspects before being named a convict. That is, with a significant negative AR on suspect status, it indicates that evidence of the involvement of SOE Officials in corruption crimes was found, and investors assess the incident as a negative event. When someone becomes a convict, there is no significant negative AR, meaning that investors did not consider that corruptors received criminal punishment from the court as a surprise because investors assumed that since being named a suspect, it is highly likely the suspect will become a convict. The results of this study are supported by research by Tay et al. [3] and Puah et al. [2], where both studies stated no abnormal return during the study period, because the public already knew the news before the news is officially circulated. The results of this study are in contrast to the research of Sarumpaet [8]. Where Lau's [7] research states that corruption has a positive impact on the market. Lau [7] argues that the more companies that pay bribes, the more stable the market will be due to the dissemination of information among several market participants. In addition, Lau [7] also argues that corruption reduces the uncertainty faced by companies in government policies.

4   Conclusion

Meanwhile, using the CAR variable, the results of the third hypothesis test stated that H0 was rejected and H1 was accepted. That is, there is a difference in cumulative abnormal returns for 5 days before and 5 days after the event. This difference occurred during the study period except for 1 day before the event and 1 day after the event. There was no difference 1 day before and after the event because, approaching the event day, many media were reporting again about the corruption that occurred and the various possibilities that occurred on the event day. As a result, there was no abnormal return 1 day before and 1 day after the event because investors waited and saw for the event at that time. This research is in line with Puah's research [2], who stated that the reason why CAR is negative is significant because CAR represents the overall movement of stock prices during the study period and reflects the price impact of information before, during, and after the event. In addition, CAR's existence during the research period indicates that news is proven to carry information that is then absorbed by the market and reflected in stock prices.

This research is also supported by Karadas and Schlosky [9] and Tay et al. [3], where Tay [3] believed that with a significant negative CAR, investors are considered capable of imposing sanctions on companies that commit corruption. Tay [3] also added that a significant negative CAR indicated that investors had concerns about the company's future, such as suspension or delisting from the stock exchange. Based on the two studies that support this research, it can be said that with a significant negative CAR, in addition to ongoing corruption cases, the media makes corruption cases headline news for several days, and the media continues to talk about the corruption from various sides. By making the news on the corruption of SOE officials as headline news, it will indirectly affect investor transaction activities. Due to many news sources, investors need time to analyze news from various sources before deciding. Similar research was conducted by Sarumpet and Hendrawaty [8], which stated that the market gave a negative response to companies that were not socially responsible. Both of them think that a significant negative AR is a form of punishment for companies that neglect social responsibility. Apart from responsibility, companies also get a bad image in society, legal consequences, decreased sales, and decreased share prices.

Recommendations for investors with short-term investment objectives are to sell shares owned when a corruption case of SOE Officials occurs. The shares were sold to avoid losses due to the declining share price due to the ongoing corruption cases of SOE officials. Selling in this recommendation means, regardless of the corruptor's status, that investors are recommended to sell their shares to avoid losses due to declining stock prices. For investors with long-term investment goals, looking at the company's fundamental analysis is recommended. If the company's fundamentals are still good, shares in state-owned companies can still be held for the long term.

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