

Chapter 12

Investors' Reactions to the Announcement of New Constituents of BIST Sustainability Index: An Analysis by Event Study and Mean–Median Tests

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ABSTRACT

This study investigates the reaction of investors to the announcement of firms included in BIST Sustainability Index. Stock returns of BIST 50 firms, which are also constituents of BIST Sustainability Index, with those of BIST 50 firms that could not qualify for inclusion in BIST Sustainability Index, are compared. Based on mean/median tests, no significant difference between various returns of two groups of firms is found. Except for interval 0 to +4 days, the findings of event study indicates no significant abnormal returns for BIST Sustainability Index Constituents in the event window of 10 days surrounding the announcement day, but indicates significant positive cumulative abnormal returns for intervals 0 to +4 days, 0 to +5 days, 0 to +7 days, 0 to +8 days, 0 to +9 days and 0 to +10 days, which is an indication that investors valued the BIST Sustainability Index Constituents a few days after the announcement by investing in the stocks of these firms.

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INTRODUCTION

Poverty, unfair distribution of income, healthcare problems, environmental pollution and technological disasters are concomitants of welfare that generate visible damages in the world. An increase in social, technological and environmental risks facing the global economy revealed that taking only financial issues into account is not enough to maintain and sustain the progress, but also social and environmental issues must be considered (Tokgöz & Önce, 2009). The concept of sustainable development emerged as a result of this necessity and was defined for the first time in 1987 in the Brundtland Report of World Commission on Environment and Development. According to this definition, "Development that meets the needs of the present without compromising the ability of future generations to meet their own needs is sustainable development" (World Commission on Environment and Development [WCED], 1987).

The concept of corporate sustainability refers to sustainable development at the firm level (Signitzer & Prexl, 2007). Sustainable development at the firm level can be defined as "adopting business strategies and activities that meet the needs of the enterprise and its stakeholders today while protecting, sustaining and enhancing the human and natural resources that will be needed" (International Institute for Sustainable Development [IISD], 1992)

At the macro level, the concept of sustainability refers to considering social and environmental factors, avoiding policies results of which eradicate social equity, communal living and environment. Best practices for attaining corporate sustainability can be cited as follows; making legal arrangements that decrease the harmful effects of business activities on environment and natural life, tightening public scrutiny about these arrangements, aggravating penalties for people who disobey the legal arrangements, motivating firms economically in order to popularize sustainability activities, becoming a part of international legal arrangements like Kyoto Protocol. On the other hand, abandoning the perception that considers sustainability activities as only a cost element, implementing corporate governance which is an integral part of sustainability, using eco-friendly technological devices, improving physical working conditions for employees, avoiding hazardous substances on human health in production are examples of practices to be implemented for attaining corporate sustainability at the micro level.

If environmental and other destructions, which are consequences of economic activities, continue at this speed, it is obvious that they are going to be critically harmful for both natural life and humanity in the long term. Therefore, discussions that have focused on how economic development and profitability can be achieved must be outweighed by discussions which concentrate on how healthy and sustainable life can be maintained in the near future. Therefore, before it is too late, concept of corporate sustainability must be popularized both at macro and micro levels for the sake of current and future generations. It is extremely important that firms should be aware that they are responsible for social and environmental effects of their actions on the public. Sustainability, economic development and profitability are objectives which can exist and be realized together. As a matter of fact, management's goal of maximizing the profit or maximizing the firm value has recently been evolving into a new goal that focuses on both financial issues and environmental and social issues.

Concurrently, firms have become facing increasing expectations related to environmental and social performance. Firms are motivated to develop eco-friendly business models and to contribute to the community. Moreover, not only is sustainability perceived as a subject primarily for companies, but also it is now an inseparable part of the business world. The debate about corporate sustainability has gone from "whether the firm should make investments in sustainability" to "how best this should be done." And

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