Chapter 12

The Response of Trading Volume to Borsa Istanbul Sustainability Index Inclusions and Exclusions

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ABSTRACT

Borsa Istanbul Sustainability Index (XUSRD) was launched on November 4, 2014. Initially, there were 15 firms in the index. This number grew to 56 as of December 2019. This study aims to investigate whether the firms’ inclusion in or exclusion from XUSRD affect their trading volume. Both the effects of the announcement days and the effective days of the index changes were considered, and six index events that occurred between Nov 2014 and Dec 2019 were studied. On the effective days and their subsequent days, there were no significant trading volume changes for both included and excluded firms. On the announcement days, the trading volume increased for the included firms and decreased for the excluded firms, though only the experience of the deleted firms was statistically significant. Therefore, there was an asymmetric response to additions and deletions. In addition, the index effect on the included and excluded firms was temporary, which supports the price pressure hypothesis.

INTRODUCTION

Efficient market hypothesis assumes that a firms’ inclusion in an index should not affect its stock prices (Gregoriou, 2011). However, in practice, index revisions can affect the firms’ stock prices and trading volumes either temporarily or permanently. Though some traditional stock indices do not change their constituents in relation to performance criteria like Egypt’s EGX30 (Ahmed & Bassiouny, 2018), and
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index changes like in S&P 500 may be considered information-free events (Clacher & Hagendorff, 2012), sustainability indices are revised in terms of firms’ compliance to environment, social and governance (ESG) criteria. Hence, the events related to sustainability index may contain meaningful information (Clacher & Hagendorff, 2012). In this respect, being included in the sustainability indices would result in prominent impacts on prices and trading activity of listed firms.

There are some previous studies investigated the effect of Borsa Istanbul Sustainability Index (XUSRD) related events on firms’ returns. Çıtak and Ersoy (2016) found that there was no significant difference between the returns of XUSRD firms and the control group. Gündüz (2018) showed that being included in the XUSRD did not affect the value of stocks. Temiz and Acar (2018) demonstrated that the inclusion announcements revealed limited effects on returns. By examining the effect of XUSRD inclusion announcements on Turkish banks’ returns, Gök and Gökşen (2020) evidenced that while there were negative abnormal returns before the announcements, positive abnormal returns were observed following the announcements.

However, investigating the index events in the perspective of returns is one of the research questions. The other one is whether the index events affect the trading volume. In this study, it is particularly aimed to detect whether the inclusion in or exclusion from XUSRD has any significant impact on firms’ trading volume. To our knowledge, this is the first study focusing on firms’ trading volume changes related to XUSRD events and will fill a gap in the CSR literature.

The remaining of the study is organized as follows: Section 2 explains corporate social responsibility strategy, Section 3 reviews the literature on the effects of index revisions, Section 4 presents the data and methodology, Section 5 provides the empirical results, and last section concludes the chapter.

Corporate Social Responsibility Strategy

Corporate social responsibility (CSR) is no longer just a philanthropic endeavor but an integral part of corporate strategy (Galbreath, 2006; Lamberti & Noci, 2012). To create sustainable business models, firms need to integrate CSR into corporate strategy (Jhunjhunwala, 2014). Adopting a CSR strategy contributes the firms in many ways. For instance, a good signaling effect may be created through CSR activities, and accordingly, a reliability and reputability certification can be earned (Lin, Hung, Chou, & Lai, 2019). Firms can successfully manage corporate reputation (CR) through CSR activities by doing good and avoiding bad, and CSR practices in the perspective of avoiding bad should be implemented foremost, because stakeholder can forgive a weak CSR performance in terms of doing good (Lin-Hi & Blumberg, 2018). Hun et al. (2014) found that CSR practices positively and directly influenced the reputation and brand credibility in Korea. Similarly, Liu, Wong, Shi, Chu, and Brock (2014) suggested that CSR performance positively affected the brand preference of customers in China. By focusing on banking customers in India, Fatma, Rahman, and Khan (2015) revealed that CSR activities enhanced consumer trust, which mediates the positive link between CSR and CR as well as CSR and brand equity. In addition, employees are one of the primary stakeholders, and their needs for safety/security, distinctiveness, belongingness and meaning can be satisfied by CSR activities (Bauman & Skitka, 2012). By using data of nearly 85,000 questionnaires from 381 Brazilian firms, Barakat, Isabella, Boaventura, and Mazzon (2016) found that CSR activities revealed a good organizational image, which led to positive employee assessments. Skudiene and Auraskeviciene (2012) reported that both internal and external CSR practices were positively associated with employee motivation. Edmans (2011) demonstrated that
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