

BOUNDARIES OF THE EFFECTS OF REPUTATIONAL RISK ON SHAREHOLDER WEALTH: EVIDENCE FROM SPAIN*

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ABSTRACT:

Reputational risk is identified with a negative perception by the economic agents that can cause future effects of the same sign. Most empirical papers have identified this negative perception from bad news about companies and have tried to check their effects by explaining abnormal market returns. In this regard, this paper analyzes and selects the bad news about a sample of Spanish listed companies, to use them as an explanation of abnormal shocks in market and liquidity risk. The results indicate that there is a negative reputational effect manifested on closing prices and volume, as well as positive effects on volatility. Additionally, it implies an increase in illiquidity. Given that sometimes the effect is contemporaneous and in other cases there is a lag between the event and the loss, it has not been possible to identify homogeneous behavior among companies, so it is concluded that reputational risk is idiosyncratic.

KEYWORDS: reputational risk, abnormal return, reputation news, shareholder value.

JEL: G14, G31, G38.

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