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Market Reaction Differentiation to Share Buyback Announcements in Terms of Market Capitalization

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Abstract: *This study aims to analyze the differences in market reactions to share buyback announcements in large-cap and small-cap companies listed on the Indonesia Stock Exchange during the period 2022–2024. Market reactions are measured through abnormal returns and trading volume activity (TVA) around the date of the buyback announcement. This study uses a comparative quantitative approach with the event study method. The research sample consists of 45 share buyback actions selected using purposive sampling. Abnormal returns were calculated using the Constant Return Model (CRM), while differences before and after the buyback announcement were analyzed using a paired sample t-test, as the test compares market conditions before the announcement (anticipation period) and after the announcement (adjustment period). The results show that both big cap and small cap companies experienced significant negative abnormal returns in the pre-announcement and post-announcement periods, but no significant abnormal returns were found on the announcement date. These findings indicate that the market had anticipated the buyback information prior to the official announcement. Meanwhile, trading volume activity (TVA) results show that big cap companies experienced significant and sustained changes in trading volume after the buyback announcement, while small cap companies did not show statistically significant changes in trading volume. Overall, the findings indicate that company size does not affect short-term stock price reactions, but influences differences in investor trading activity following share buyback announcements.*

Keywords: Market Capitalization; Market Reaction; Share Buyback

JEL: G1, G1, G3

1. INTRODUCTION

Stock price stability in the capital market largely depends on investor responses to corporate actions. One strategy frequently used to restore investor confidence is share buybacks, which are perceived as a signal that the company's shares are undervalued and that management has positive future prospects (Sharawi, 2022). Buybacks are often implemented during periods of economic uncertainty as a tool for value management and market stabilization (Kusuma, 2022; Zein & Akbar, 2020).

The urgency of buyback policies increased after the COVID-19 pandemic, which placed significant pressure on stock prices. In response, the Financial Services Authority (OJK) issued Circular Letter No. 3/SEOJK.04/2020, allowing companies to conduct share buybacks without approval from the General Meeting of Shareholders (Gitayuda, 2021; Laili, 2020). This regulatory flexibility provided companies with greater discretion in stabilizing their stock prices.

Following this policy, more than 40 buyback actions were recorded between 2022 and 2024, with several issuers conducting repeated buybacks during this period. This development raises an important question: does the market respond differently depending on company characteristics, particularly firm size? In this context, differences between big-cap and small-cap companies become relevant.

Small-cap companies generally face higher information asymmetry and limited analyst coverage. Therefore, buybacks may serve as a stronger signal of undervaluation (Karstens, 2021; Jamadar et al., 2024). In contrast, big-cap companies typically have more stable cash flows and broader access to capital markets, and buybacks are often used as part of capital structure management (Dobbs & Rehm, 2005). These structural differences suggest that market reactions to buybacks may vary between big-cap and small-cap firms.

From a theoretical perspective, signaling theory explains that share repurchases convey management's belief that the firm is undervalued (Brav et al., 2005; Dittmar, 2000). According to the

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Efficient Market Hypothesis (Fama 1970), if markets are semi-strong efficient, public information such as buyback announcements should be rapidly reflected in stock prices. However, in emerging markets such as Indonesia, market inefficiencies may still allow abnormal returns and changes in trading volume activity (TVA) to occur around corporate announcements (Hasibuan & Chailil, 2018; Gitayuda, 2021; Kusuma, 2022).

Empirical findings in Indonesia remain inconsistent. Some studies document positive abnormal returns around buyback announcements (Laili, 2020; Masruroh & Hariyanto, 2022; Zein & Akbar, 2020), while others report insignificant or temporary effects on trading volume (Saragih, 2015; Nurfadliyah, 2023). However, prior studies generally examine buybacks without explicitly comparing market reactions between big-cap and small-cap firms within the same period.

Therefore, a clear research gap exists regarding whether firm size differentiates short-term stock price reactions and trading volume activity (TVA) responses to buyback announcements in the post-pandemic Indonesian market. Addressing this gap is important for understanding how corporate signals are interpreted under varying levels of liquidity, information asymmetry, and market efficiency.

This study aims to analyze differences in abnormal returns and trading volume activity (TVA) between big-cap and small-cap companies following buyback announcements during 2022–2024. The contribution of this research lies in providing comparative evidence from an emerging market context, particularly in distinguishing short-term price reactions and trading activity responses across firm size categories during a recovery period.

2. LITERATURE REVIEW

2.1 Signalling Theory

Signaling theory, introduced by Spence (1973), explains that in conditions of information asymmetry between management and investors, companies send signals to the market to convey their fundamental value. In the capital market context, empirical research by Puspitaningtyas (2019) shows that corporate announcements as information signals can trigger market reactions. One of these signals is share buybacks, which are generally interpreted as an indication that management believes the company's shares are undervalued and have favorable future prospects (Brav et al., 2005; Dittmar, 2000).

In this context, investors may respond to buyback signals, which can be reflected in stock price movements and abnormal returns. However, such reactions are not always positive, as the effectiveness of the signal depends on market conditions, firm characteristics, and the credibility of management.

2.2 Information Asymmetry Theory

Closely related to signaling theory, information asymmetry theory emphasizes that managers possess private information that is not fully accessible to investors. In this situation, corporate actions such as share buybacks may function as mechanisms to reduce information gaps. Dittmar (2000) and Nerlinger & Utz (2022) show that firms with higher levels of information asymmetry are more likely to conduct buybacks to strengthen investor confidence.

This perspective is particularly relevant to the distinction between big-cap and small-cap firms. Small-cap companies typically have limited analyst coverage, lower liquidity, and less comprehensive disclosure compared to big-cap firms. As a result, buybacks in small-cap firms may carry stronger signaling effects because they help reduce investor uncertainty. In contrast, big-cap firms are generally more transparent, so the incremental signaling impact of buybacks may be relatively smaller.

Thus, differences in firm size may influence how strongly the market reacts to buyback announcements, both in terms of abnormal returns and trading volume activity (TVA).

2.3 Efficient Market Hypothesis - EMH

The Efficient Market Hypothesis (EMH) proposed by Fama (1970) states that stock prices fully reflect all available information. In a semi-strong efficient market, public announcements such as buyback disclosures should be immediately incorporated into stock prices, leaving no opportunity for abnormal returns.

However, emerging markets such as Indonesia are often considered not fully efficient. Factors such as relatively lower liquidity, limited public information disclosure, and the dominance of retail investors may contribute to slower information absorption and temporary market inefficiencies. Empirical studies in Indonesia indicate that corporate announcements can still

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generate abnormal returns and significant changes in trading volume activity (TVA) (Hasibuan & Chailil, 2018; Gitayuda, 2021; Kusuma, 2022).

Therefore, examining buyback announcements in the Indonesian context provides an opportunity to test whether market reactions differ across firm size categories under conditions of imperfect efficiency.

Conceptual Framework Link

Taken together, signaling theory explains the informational role of buybacks, information asymmetry theory highlights differences in firm characteristics, and EMH provides the foundation for understanding how quickly markets respond to public information. Integrating these perspectives allows this study to analyze whether abnormal returns and trading volume activity (TVA) responses to buyback announcements differ between big-cap and small-cap companies in the Indonesian capital market.

3. METHOD

3.1 Research Design

This study applies a comparative quantitative approach using the event study method. The objective is to analyze and compare market reactions to share buyback announcements in big-cap and small-cap companies listed on the Indonesia Stock Exchange (IDX).

The event study method is used to observe market reactions around the announcement date. Market reactions are measured through abnormal returns and trading volume activity (TVA), which reflect investor responses to buyback information.

3.2 Data and Research Period

This study focuses on companies listed on the Indonesia Stock Exchange (IDX) that announced share buybacks during 2022–2024. The observation period covers the announcement year and the event window surrounding each buyback event.

The study uses secondary data, including daily closing stock prices, daily trading volume, and the Composite Stock Price Index (IHSG) as a market proxy. Data were obtained from the official IDX website, Yahoo Finance, and company disclosures.

3.3 Population and Sample

The population consists of 47 companies that announced share buybacks during the 2022–2024 period, including 16 large-cap companies and 31 small-cap companies. The sample was selected using purposive sampling based on the following criteria: 1) Companies that officially announced share buybacks during the 2022–2024 period. 2) Companies with complete daily share price and trading volume data within the event window.

Two small-cap companies were excluded because they did not have trading volume data. Therefore, the final sample consisted of 45 share buyback events, including 16 large-cap companies and 29 small-cap companies. Some companies conducted share buybacks more than once; each buyback action was considered a separate event.

Table 1 Sample Distribution Based on Market Capitalization

Category	Initial Population	Excluded	Final Sample (Events)
Big-cap	16	0	16
Small-cap	31	2	29
Total	**47**	**2**	**45**

Source: processed data (2025)

3.4 Variable Measurement

Abnormal Return

Abnormal return (AR) is defined as the difference between actual return and expected return:

$$\boldsymbol{AR_{i,t}} = R_{i,t} - E(R_{i,t})$$

Expected return is estimated using the Constant Return Model (CRM), which assumes that stock returns remain constant during the estimation period. CRM is selected because it is simple, does not require beta estimation, and is appropriate for short event windows.

Cumulative Abnormal Return (CAR) is calculated by summing abnormal returns during the event window.

Trading Volume Activity (TVA)

Trading volume activity (TVA) measures the intensity of trading around the announcement date. TVA is calculated as:

$$\boldsymbol{TVA} = \frac{Number\ of\ shares\ traded}{Total\ shares\ outstanding}$$

A higher TVA indicates stronger investor response to new information. This variable is used to capture changes in trading behavior following buyback announcements. After calculating abnormal returns and TVA, the next step is to test whether there are significant differences before and after the buyback announcement.

3.5 Data Analysis Technique

Data analysis is conducted using the event study approach by measuring abnormal returns and trading volume activity (TVA) during the event window. Abnormal returns are calculated as the difference between actual returns and expected returns.

Expected returns are estimated using the Constant Return Model (CRM), which assumes that stock returns remain constant during the estimation period. CRM is selected because it is simple, does not require beta estimation or adjustments based on market returns, and remains stable when announcement dates differ across firms. This model is appropriate for short event windows and has been widely validated in event study literature (Brown & Warner, 1985; MacKinlay et al., 1997). Recent evidence also confirms that simple models such as CRM remain statistically reliable for short-term event studies (Nguyen, 2023).

Trading volume activity (TVA) is calculated to observe changes in trading intensity as an additional indicator of market reaction. A higher TVA reflects stronger investor response to new information.

After obtaining abnormal return and TVA values, a paired sample t-test is conducted to examine differences before and after the buyback announcement. The test is appropriate because the observations are paired, comparing the same companies under two related conditions (pre- and post-announcement periods). The analysis is performed separately for big-cap and small-cap companies to identify differences in market reaction patterns between the two groups.

4. RESULT AND DISCUSSION

4.1. Result

4.1.1 Abnormal Return

Table 2 Abnormal Return (Constant Return Model)

Company	Periode Event Window	Metrik	CAR/BHAR (%)	t-stat	p-value	Significance Statement
Big Cap	Anticipation (-10)	CAR	-19051%	-2.123470346	3.62%	Significant (5%)
		BHAR	25765429303986.90%	2,368	0.00%	Significant (1%)
	Event Date (0)	CAR	-4578.75%	-1.61	10.97%	Not Significant
		BHAR	-4578.75%	-1.61	10.97%	Not Significant
	Adjustment (+10)	CAR	-39847.97%	-4.44146	0.00%	Significant (1%)
		BHAR	5.62831E+15	6.27331E+13	0.00%	Significant (1%)
	Total (-10 hingga +10)	CAR	-63478.14%	-4.882402511	0.00%	Significant (1%)
		BHAR	-6.4949E+28	-4.99553E+26	0.00%	Significant (1%)

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Small Cap	Anticipation (-10)	CAR	-9706.93%	-5.995226277	0.00%	Significant (1%)
		BHAR	191615771779.88%	118346363.7	0.00%	Significant (1%)
	Event Date (0)	CAR	-902.07%	-1.76	8.12%	Not Significant
		BHAR	-902.07%	-1.76	8.12%	Not Significant
	Adjustment (+10)	CAR	-7882.79%	-4.86860	0.00%	Significant (1%)
		BHAR	177723940.2	10976644.49	0.00%	Significant (1%)
	Total (-10 hingga +10)	CAR	-18491.80%	-7.881213479	0.00%	Significant (1%)
		BHAR	-2.73143E+18	-1.16414E+17	0.00%	Significant (1%)

Source: processed data (2025)

The results of abnormal return testing using the CRM model show that both big cap and small cap stocks experienced significant negative abnormal returns during the anticipation and adjustment periods, while they were insignificant during the event period. This indicates that there is no difference in market reaction to buybacks conducted by big cap and small cap companies.

4.1.2 Trading Volume Activity Difference Test

Table 3 Trading Volume Activity Test Results

Company	Normality	Testing	P-Value	Conclusion
Big Cap	Normal	Paired Sample T Test	0.000	Significant
Small Cap	Normal	Paired Sample T Test	0.536	Not Significant

Sources: processed data (2025)

Based on Table 2, both big cap and small cap companies have normally distributed data, so the test used is the paired sample t-test. Based on the test results, the p-value for large-cap companies is <0.05, which means there is a significant difference in transaction volume before and after the buyback announcement. Meanwhile, the p-value for small-cap companies is >0.05, which means there is no significant difference in transaction volume before and after the buyback announcement.

4.1.3 Average Trading Volume Activity

Table 4 Average Trading Volume Activity

Company	Mean		
	Before	Event	After
Big Cap	35,665,781.60	37,960,593.75	59,096,551.30
Small Cap	5,983,721.70	10,199,858.06	5,142,700

Sources: processed data (2025)

Based on Table 3, it is known that in big cap companies, before the buyback announcement, the average volume was 35.665.781,60, then increased to 37.960.593,75 on the event date and further rose to 59.096.551,30 after the buyback announcement. Meanwhile, in small-cap companies, the average volume before the buyback announcement was recorded at 5.983.721,70 and increased to 10.199.858,06 at the time of the event, but after the announcement, the trading volume actually decreased to 5.142.700.

4.2 Discussion

4.2.1 Abnormal Return

Based on the results of abnormal return testing using the Constant Return Model (CRM), it is known that big cap and small cap companies show relatively similar market reactions to share buyback announcements, characterized by negative abnormal returns in several observation periods. However, differences in the magnitude of the reaction between the two groups of companies are still apparent, so conclusions regarding differences in market reactions need to be interpreted with caution. Both large-cap and small-cap companies show similar patterns, namely significant negative abnormal returns in the anticipation and adjustment periods, and negative but insignificant abnormal returns on the event date.

During the anticipation period, large-cap companies recorded a CAR value of -19,05% with a p-value of 3,62%, which is significant at the 5% level. Similarly, small-cap companies experienced a CAR of -9.706,93% with a p-value of 0,00%, which is significant at the 1% level. This indicates that the market had already responded negatively before the official announcement was made. This negative reaction may reflect that the market had anticipated the buyback before the official announcement, so that the information no longer provided a strong enough signal for investors (Grullon & Michaely, 2004; Rasbrant, 2011).

However, during the same period, BHAR for both types of companies showed very large and statistically significant values, namely $2{,}57 \times 10^{13}\%$ for big caps and $1{,}92 \times 10^{11}\%$ for small caps. The magnitude of BHAR values needs to be interpreted with caution, as they can be influenced by the compounding effect, data outliers, or high stock price volatility during the observation period. Thus, the significance of BHAR reflects statistical differences in long-term performance rather than definite economic returns.

Statistically significant BHAR indicates that the market still captures long-term signals from buybacks, even though short-term price reactions tend to be negative. Ikenberry et al. (2000) state that "Repurchasing firms earn long-run abnormal returns," so that fundamental company information is reflected more strongly in the longer term. However, short-term price pressure still arises because the market often anticipates buybacks before the official announcement. Bonaime (2015) explains that "investors anticipate the announcement before it becomes public," so the price response on the day of the announcement is relatively weak. This pressure is also reinforced by profit-taking, where Kim & Verrecchia (1991) assert that "investors may reverse their positions upon the public announcement, generating short-term selling pressure." In addition, the credibility of buyback signals also affects price reactions. Chan et al. (2007) state that "markets discount announcements that lack clear commitment." Therefore, short-term reactions may be limited even though long-term signals are still perceived as positive by investors.

On the event date (day 0), both big cap and small cap companies showed negative but insignificant CAR. This indicates that the buyback announcement did not result in significant price changes on the event date. This weak reaction may have occurred because the market had already anticipated the buyback information, so the announcement no longer provided any surprise information. International literature also shows a similar pattern. Lee et al. (2023) found that in more efficient markets, abnormal returns at the time of buyback announcements tend to subside, while Sodhi et al. (2023) reported that the short-term response to repurchases is generally small and insignificant.

During the adjustment period (+10), both big cap and small cap companies again showed significant negative CAR. This indicates that after the announcement, stock prices tended to continue declining. This phenomenon can be interpreted as portfolio adjustments and profit-taking by investors, particularly short-term investors who had anticipated the announcement. In addition, this reaction may also reflect the market's cautious attitude towards the effectiveness of buybacks, especially if they are carried out repeatedly without any improvement in the company's fundamentals. However, BHAR during this period actually increased significantly, namely by $5{,}62 \times 10^{15}$ for big caps and $1{,}08 \times 10^{7}$ for small caps. Once again, the BHAR value needs to be understood as an indication of long-term statistical performance, not as a measure of absolute economic profit.

Overall, in the total period (-10 to +10), both big caps and small caps experienced significant negative CARs, at -6.347,14% and -18.491,80%, respectively, with p-values < 0.01. This reinforces

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the conclusion that in the short term, buybacks are not entirely capable of directly increasing stock prices. Conversely, the BHAR value remains statistically significant, although its magnitude is highly volatile, at -6,49 × 10^{28} for big caps and -2,73 × 10^{18} for small caps. These extreme BHAR values are most likely influenced by data anomalies or outliers, which need to be analyzed further in subsequent research.

Thus, this shows that buyback announcements are not always responded positively by the market in the short term, especially if buybacks are carried out repeatedly or in unstable market conditions. However, from a long-term perspective, there are indications that buybacks still send positive signals, especially if they are supported by good corporate fundamentals.

4.2.2 Transaction Volume

Based on the test results, there is a difference in the transaction volume test results for big cap and small cap companies before and after the buyback announcement. Big cap companies experienced significant changes before and after the buyback announcement, while small cap companies did not experience significant changes. Details of the comparison can be seen in Figure 1.

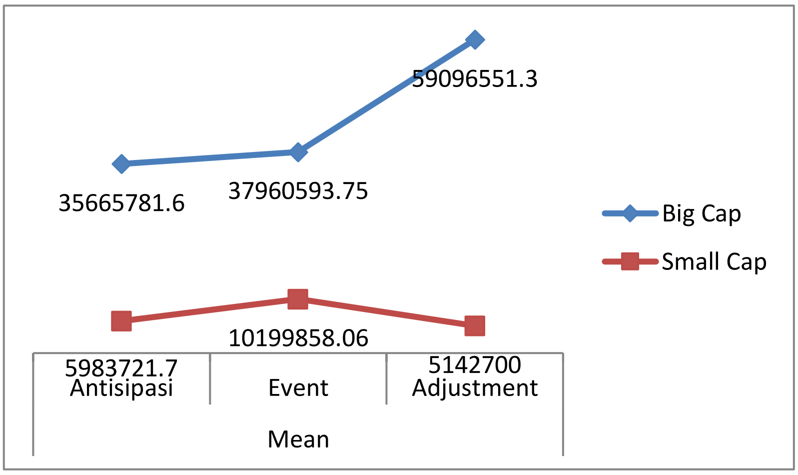

Figure 1. Average Trading Volume Activity

Based on the graph in Figure 1, it can be seen that during the event period, small cap companies increased dramatically by 70,46%, while big cap companies only increased by 6,43%. During the adjustment period, big cap companies continued to experience an increase in volume, which was even higher at 55,68%, while small cap companies actually experienced a decline of -49,58%, even falling below the anticipation period. This resulted in no significant change in volume for small-cap companies. This pattern shows that the market's reaction to the buyback announcement for small caps was short-term and speculative, with volume increasing sharply for a moment but immediately declining again after the event passed. In contrast, the market reaction to large-cap companies is gradual and sustained, reflecting rational adjustments and increased investor confidence in buyback actions. Therefore, although small-cap companies experienced a significant surge during the event, sharp fluctuations between periods resulted in statistically insignificant overall changes in volume.

The results of the Trading Volume Activity (TVA) test reinforce this pattern. In big cap companies, a p-value < 0,05 indicates a significant change between the volume before and after the buyback. Meanwhile, small caps have a p-value of 0,536, which indicates that the change in volume is not significant despite large descriptive fluctuations. This shows that investor response to buybacks is greatly influenced by the fundamental characteristics of the company, particularly its size and liquidity level.

In terms of volume movement patterns, large-cap companies show a consistent increase in TVA: from 35,66 million before the event, rising to 37,96 million on the event date, and continuing to increase to 59,09 million in the period after the announcement. This gradual increase illustrates the mechanism of information-based trading (Kim & Verrecchia, 1991), in which investors rationally adjust their portfolios when information is perceived as credible. Because big cap companies have higher transparency and a more established reputation, buybacks are seen as a strong fundamental signal, leading to sustained market participation.

Conversely, in small cap companies, volume movements are highly volatile and unstable. Volume rose sharply from 5,98 million in anticipation to 10,19 million on the event date, but then fell dramatically to 5,14 million in the adjustment period. This sharp but short-lived spike indicates that investor reactions are short-term and driven by speculation. This is consistent with research by Saragih (2015) and Amin et al. (2022), which states that small caps are vulnerable to noise trading, so that new information often causes a temporary spike in volume without long-term sustainability.

The difference in response patterns can be explained by the market structure characteristics of the two groups of companies. Big cap companies generally have higher liquidity, greater market depth, and lower risk perception, so buyback information is processed more rationally. This is consistent with the findings of Hillert et al. (2015), which show that buybacks in large companies tend to increase liquidity and attract sustained investor participation because the market views such actions as a signal of management's confidence in fundamental performance. The stable increase in volume for big caps during the event period until adjustment is in line with the information-based trading mechanism, where investors gradually adjust their portfolios when information is considered credible and supported by the company's reputation.

Conversely, small-cap companies face very different market conditions. Lower liquidity, limited analyst coverage, and high levels of information asymmetry make the market more vulnerable to short-term reactions. A 70,46% surge in volume during the event period reflects a spontaneous response from investors that is more influenced by sentiment and speculation than fundamental evaluation. However, the market's lack of confidence in the sustainability of the signal caused volume to decline in the following period. These findings are in line with Ginglinger & Hamon (2007), who state that in small companies, buybacks tend to occur when the market is under pressure and often result in unstable liquidity. In addition, a recent study by Yoon & Takahashi (2025) shows that small-cap stocks often experience temporary volume spikes after the emergence of new information, mainly due to the dominance of sentiment-based trading and noise trading.

The absence of statistically significant changes in small caps can also be understood through the dynamics of interperiod volume volatility. Despite a large spike on the event date, volume instability in the following period prevented the aggregate pattern from forming a consistent trend. High volume volatility in small caps is generally an indicator of information asymmetry and imbalance in perception among market participants, as explained by Lof & Bommel (2023), who found that volume variability reflects significant differences in information between informed and uninformed traders. This condition makes buyback signals in small caps less effective in forming a stable market response.

In addition, small-cap markets tend to be more sensitive to short-term sentiment and speculation-based movements. Yoon & Takahashi (2025) show that small-cap stocks often experience rapid volume spikes that disappear after information is released, due to the dominance of sentiment-based trading over fundamental evaluation. This finding is consistent with the results of research by Naidoo et al. (2025), which states that small cap indices are in a less efficient market condition, so that market reactions to public information are excessive, unstable, and difficult to sustain in the long term. Therefore, although small caps show large fluctuations descriptively, extreme volatility and the dominance of noise trading cause overall volume changes to be statistically insignificant.

5. CONCLUSION AND SUGGESTIONS

CONCLUSION

This study analyzes market reactions to share buyback announcements by big cap and small cap companies on the Indonesia Stock Exchange during the period 2022–2024 using an event study approach. The abnormal return test results show that there is no significant difference in stock price reactions between big cap and small cap companies around the date of the buyback announcement. Both large-cap and small-cap companies experienced significant negative abnormal returns during the anticipation and adjustment periods, but no significant returns on the announcement date. These findings indicate that the market had anticipated the buyback information prior to the official announcement, so the action did not provide a strong information shock in the short term.

Conversely, the results of the Trading Volume Activity (TVA) test show differences in trading reaction patterns between the two groups of companies. Big cap companies experienced significant and

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sustained changes in trading volume after the buyback announcement, while small cap companies did not show statistically significant changes despite a surge in volume on the announcement day. Overall, the results of this study indicate that company size does not affect stock price reactions to buybacks in the short term, but plays a role in shaping investor trading activity responses in the Indonesian capital market.

SUGGESTION

Based on the results of the study, companies are advised not to use share buyback policies as the sole instrument for shaping positive market perceptions, especially in the short term. Buybacks will be more effective if accompanied by improved fundamental performance and adequate information disclosure so that the signals sent to investors have stronger credibility.

For investors, the results of this study show that market reactions to buyback announcements, especially for small-cap companies, tend to be temporary and volatile. Therefore, investors are advised to consider the company's fundamentals and long-term investment objectives, and not rely solely on buyback announcements as the basis for investment decisions.

For further research, it is recommended to use alternative return estimation models and conduct robustness testing to minimize the influence of outliers, particularly in BHAR measurements. In addition, the addition of other variables such as market conditions and buyback realizations is expected to provide a more comprehensive picture of the effectiveness of share buyback policies in the Indonesian capital market.

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