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Market Reactions to Divestiture Announcements: An Empirical Study on the Indonesia Stock Exchange
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Abstract

Divestiture enables firms to restructure their operations, reallocate resources, and refocus on their core business activities. However, the empirical evidence on how the Indonesian capital market evaluates these announcements remains limited. This study addresses this gap by examining market reactions to divestiture announcements and identifying the firm-level characteristics associated with differences in the magnitude of abnormal return (AR). The sample consists of 26 companies listed on the Indonesia Stock Exchange that announced divestitures between 2018 and 2025. Two methodological approaches are employed. An event study is conducted to assess market reaction over a 21-day event window, with expected returns estimated using the market model. While a cross-sectional regression is conducted to examine whether divestiture size, firm size, profitability, and leverage explain variations in abnormal return (AR). The results reveal significant negative average abnormal return (AAR) on several days surrounding the announcement, suggesting that investors in the Indonesian capital market tend to interpret divestiture announcements as unfavorable information. Additionally, the cross-sectional regression results show that firm size is negatively associated with abnormal return (AR), while profitability is positively associated with abnormal return (AR). The remaining two variables, divestiture size and leverage, are not statistically significant.

Keywords: Divestiture, market reaction, abnormal return, event study, firm characteristics