

The Impact of Insider Trading on Open Market Share Repurchase: A Study in Indian Context

Authors : Sarthak Kumar Jena, Chandra Sekhar Mishra, Prabina Rajib

Abstract : Purpose: This paper aims to derive undervaluation signal from the insiders trading of Indian companies where the ownership is complex and concentrated, investors protection is weak, and the insider rules and regulations are not stringent like developed country. This study examines the relationship between insider trading with short term and long term abnormal return. The study also examines the relationship between insider trading and the actual share repurchase by the firm. Methodology: A sample of 78 companies over the period 2008-2013 are analyzed in the study due to not availability of insider data in Indian context. For preliminary analysis T-test and Wilcoxon rank sum test is used to find the difference between the insider trading before and after the share repurchase announcement. Tobit model is used to find out whether insider trading influence shares repurchase decisions or not. Return on the basis of market model and buy hold are calculated in the previous year and the following year of share repurchase announcement. Findings: The paper finds that insider trading around share repurchase is more than control firms and there is positive and significant difference in insider buying between the previous year of share buyback announcement and the following year of buyback announcement. Insider buying before share repurchase announcement has a positive influence on share repurchase decisions. We find insider buying has a positive and significant relationship with announcement return, whereas insider selling has a negative significant relationship with announcement return. Actual share repurchase and program completion also depend on insider trading before share repurchase. Research limitation: The study is constrained by the small sample size, so the results should be viewed by keeping this limitation in mind. Originality: The paper is to our best knowledge the first study based on Indian context to extend the insider trading literature to share repurchase event and examine insider trading to find out undervaluation signal associated with insider buying.

Keywords : insider trading, buyback, open market share repurchase, signalling

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