

# OWNERSHIP STRUCTURE AND LIQUIDITY

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The implementation of Good Corporate Governance (GCG) reflects a good corporate governance system. A company that runs GCG reflects the level of transparency in its financial reporting, thereby reduces the asymmetry information of financial statements. The low asymmetry information reflects information disclosure and reduces the level of uncertainty due to lack of information for investors. If it is related to the stock liquidity, the decreasing tendencies of liquidity in Indonesia stock exchange can be caused by haven't effectively implemented corporate governance. The high composition of institutional ownership in Indonesia can precisely result in the controlling of information only by some investors who own majority shares. The purpose of this study is to determine whether institutional ownership affects the level of stock liquidity in Indonesia stock exchange. The sample period cover year 2011 – 2015 of LQ 45 stocks in Indonesia stock exchange. The result shows that Institutional Ownership has a negative impact on liquidity. Institutional ownership significantly affect liquidity with r square 41, 95%. The institutional ownership as the majority tends to monitor the company only on their own interests. The greater the institutional ownership would make minority interest be unnoticed.

**Keywords:** Institutional Ownership, Liquidity, Governance

## 1. INTRODUCTION

Stock liquidity is the ability of a stock to turn into cash quickly without giving a big influence on the price. In the modern asset pricing approach, liquidity plays a significant role in stock price formation. A stock that has a low level of liquidity can mean that the stock has a high degree of uncertainty, this factor is also a reflection that the information provided by the company is not enough for investors to make an investment decision (Isynuwardhana and Dillak, 2017).

The phenomenon that occurred in Indonesia Stock Exchange during the period 2010 - 2015 shows that price movement and liquidity of shares move in the opposite direction. Indonesia Composite Index (IHSG) shows increasing trend while the level of liquidity is decreasing. This data shows that although the liquidity has a downward trend but the stock price actually shows an increasing trend. This phenomenon can occur because the majority shareholder has a tendency to hold the stock for a long period of time. The purpose of an investor with such characteristics is to take control the company. The impact is that majority shareholder will withhold their information then the minority investors do not have enough information to make an investment decision.

With the majority shareholder not taking any action and the minority owner lacks sufficient information then the stock liquidity level will be decreasing.

The Indonesia Stock Exchange show that the majority of the company's stock ownership is dominated by institutional ownership. Data from Indonesia Stock Exchange shows that institutional ownership in Indonesia reaches 73.14% of total ownership (March 2015). This high percentage indicates that institutional investors play a major role in the capital market because they are managing huge amounts of assets and continuously monitoring companies in recent years.

In this context, previous research examining the role of institutional investors against liquidity is Ajina et al. (2015) which states that institutional investors reduce bid-ask spread rates and increase stock liquidity. Since institutional investors have well diversified portfolios, they tend to be continuously trading. This is a protection for minority investors because the company is required to always be open in providing information so that Good Corporate Governance can be realized.

## 2. LITERATURE SURVEY

Jensen & Meckling (1976) defines agency cost as the sum of monitoring costs incurred by principals, agents, and residual losses. The agency problem arises because of a conflict between the manager and the shareholder (agency cost of equity) or between the shareholder and the creditor (agency cost of debt). Jensen & Meckling (1976) also identifies internal and external groups that can reduce agency conflict. The existence of external investors will provide monitoring and monitoring for the company, so the manager as an internal party will be controlled its actions. This activity will reduce the ai manager's unnatural actions so shareholder value will increase.

Maug (1998) argues that a liquid market provides an opportunity for investors to sell their shares if the investor receives unfavorable information about the company, and otherwise, a less liquid market will force investors to withhold their investments and use their voting rights to encourage the company to achieve a better return rate. The high level of return expected by investors in emerging markets such as Indonesia shows the impact of high level of liquidity risk. A high level of stock liquidity will enhance the company's reputation in the capital market, and will increase the company's value and reduce the cost of its capital.

According to trading hypothesis, the portfolio of institutional investors will encourage increased market liquidity. Institutional investors trade aggressively on the basis of their portfolios that will positively affect the level of market liquidity. Rhee and Wang (2009) stated that liquidity on the Indonesia Stock Exchange has increased, which is marked by an increase in the bid-ask spread rate by more than half and the increase in the average depth more than doubled from before. Blume and Keim (2012) states the same thing, which shows that the number of institutional investors will increase the liquidity of the stock market.

Previous research has been conducted by Chung et al. (2010), using institutional investors as an indicator of governance, provides results that institutional investors are groups that actively monitor effectively so as to reduce the level of information asymmetry. In addition, this study also concluded that companies that implement corporate governance well will have high levels of stock liquidity. Similar research was conducted by Ajina et al (2015); Tang dan Wang (2011); Ferreira and Laux (2007), with result that institutional investors will increase the liquidity due to one of the things that attract investors is the liquidity and high trading activity. In addition, companies with concentrated ownership demand for information disclosure so that it will provide stock prices in accordance with existing information.

Different results were obtained from Attig et al. (2006) and Brockman et al. (2009), which concluded that concentrated ownership would result in difficult monitoring, which would result in financial reports losing credibility to external investors. In addition, there is also a negative relationship between the percentage of ownership and stock liquidity, ie the greater portion of the

company's concentrated ownership will lead to lower stock liquidity levels.

## 3. PROBLEM DEFINITION

This study is conducted to answer the following problem formulation:

1. To know the composition of institutional ownership of companies listed on the Indonesia Stock Exchange.
2. To know the level of liquidity of companies listed on the Indonesia Stock Exchange.
3. To examine the effect of institutional ownership on stock liquidity

## 4. METHODOLOGY

This study used a sample of company listed in LQ 45 Indonesia Stock Exchange with a total sample of 22 companies. Data that will be used in this study are bid – ask price and percentage of institutional ownership.

In this study, measurement is done by the followings:

1. Institutional ownership, measured by the percentage of institutional ownership of the total shareholding of the company. This data is obtained from the company's financial statements.
2. Stock liquidity, measured using bid-ask spreads, by the formula:

$$\text{Bid Ask Spread} = \frac{\text{Ask Price} - \text{Bid Price}}{\text{Ask Price}}$$

## 5. RESULT AND DISCUSSION

### Institutional Ownership

The results show that during the observation period of 2011 to 2015, companies in Indonesia are on average owned by institutional investors of 61%. The number is relatively stable every year. As many as 41% of companies are owned by institutional investors above average. These results indicate that institutional investors do play an important role in the capital market in Indonesia. The highest institutional ownership is in the Bank Negara Indonesia and the lowest institutional ownership is in Lippo Karawaci.

### Liquidity

The result of bid ask spread shows that the average spread rate is 0.135 with a fluctuating trend every year. The interesting thing about these results is that the stock spread rate has the same tendency for each company. In 2013 and 2015 almost all companies have low liquidity, while in 2012 and 2014 the level of corporate liquidity tends to be high.



No	Company	Institutional Ownership				
		2011	2012	2013	2014	2015
1	Astra Agro Lestari Tbk	79,68	79,68	79,68	79,68	79,68
2	Adaro Energy Tbk	43,91	43,91	43,91	43,91	43,91
3	Astra International Tbk	50,11	50,11	50,11	50,11	50,11
4	Bank Central Asia Tbk	47,15	47,15	47,15	47,16	47,15
5	Bank Negara Indonesia (Persero) Tbk	97,55	97,55	97,55	97,75	96,40
6	Bank Rakyat Indonesia (Persero) Tbk	56,75	56,75	56,75	56,75	57,24
7	Bank Mandiri (Perseri) Tbk	60,00	60,00	60,00	60,00	60,00
8	Charoen Pokphan Indonesia Tbk	55,53	55,53	55,53	55,53	55,53
9	Gudang Garam Tbk	75,55	75,55	75,55	75,55	75,55
10	Indofood Sukses Makmur Tbk	50,07	50,07	50,07	50,07	50,07
11	Indocement Tunggak Prakasa Tbk	64,03	64,03	64,03	64,03	64,03
12	Indo Tambangraya Megah Tbk	65,00	65,00	65,00	70,18	70,18
13	Jasa Marga (Persero) Tbk	71,98	71,70	72,19	70,00	72,77
14	Kalbe Farma Tbk	56,63	56,63	56,71	56,71	56,68
15	Lippo Karawaci Tbk	18,12	18,12	18,12	23,44	23,44
16	London Sumatera Plantation Tbk	59,48	59,48	59,51	59,51	59,62
17	Perusahaan Gas Negara (Persero)Tbk	56,97	56,97	56,97	56,97	56,97
18	Tambang Batubara Bukit Asam (Persero) Tbk	83,76	83,77	65,02	65,02	65,02
19	Semen Gresik (Persero) Tbk	51,01	51,01	51,01	51,01	51,01
20	Telekomunikasi Indonesia (Persero) Tbk	68,47	65,38	63,47	62,21	60,86
21	United Tractors Tbk	59,50	59,50	59,50	59,50	59,50
22	Unilever Indonesia Tbk	85,00	85,00	85,00	85,00	85,00
Average		61,648	61,495	60,583	60,913	60,942

### Institutional Ownership

No	Company	Liquidity				
		2011	2012	2013	2014	2015
1	Astra Agro Lestari Tbk	0,124	0,133	0,151	0,125	0,190
2	Adaro Energy Tbk	0,166	0,135	0,175	0,159	0,173
3	Astra International Tbk	0,136	0,112	0,128	0,098	0,151
4	Bank Central Asia Tbk	0,131	0,085	0,132	0,083	0,102
5	Bank Negara Indonesia (Persero) Tbk	0,158	0,085	0,156	0,117	0,157
6	Bank Rakyat Indonesia (Persero) Tbk	0,149	0,101	0,153	0,116	0,134
7	Bank Mandiri (Perseri) Tbk	0,160	0,103	0,154	0,100	0,125
8	Charoen Pokphan Indonesia Tbk	0,220	0,147	0,202	0,112	0,178
9	Gudang Garam Tbk	0,152	0,123	0,145	0,100	0,133
10	Indofood Sukses Makmur Tbk	0,146	0,082	0,134	0,071	0,128
11	Indocement Tunggak Prakasa Tbk	0,159	0,107	0,130	0,129	0,142
12	Indo Tambangraya Megah Tbk	0,164	0,119	0,156	0,145	0,191
13	Jasa Marga (Persero) Tbk	0,113	0,087	0,109	0,102	0,112
14	Kalbe Farma Tbk	0,148	0,095	0,161	0,077	0,106
15	Lippo Karawaci Tbk	0,202	0,120	0,224	0,153	0,165
16	London Sumatera Plantation Tbk	0,141	0,148	0,208	0,145	0,188
17	Perusahaan Gas Negara (Persero)Tbk	0,140	0,109	0,129	0,086	0,145
18	Tambang Batubara Bukit Asam (Persero) Tbk	0,143	0,125	0,149	0,133	0,177
19	Semen Gresik (Persero) Tbk	0,127	0,133	0,146	0,109	0,149
20	Telekomunikasi Indonesia (Persero) Tbk	0,097	0,102	0,142	0,096	0,085
21	United Tractors Tbk	0,167	0,148	0,145	0,105	0,156
22	Unilever Indonesia Tbk	0,112	0,120	0,173	0,077	0,105
Average		0,148	0,115	0,155	0,111	0,145

### Liquidity

## The Influence of Institutional Ownership To Stock Liquidity

The result shows that Institutional Ownership have a negative impact on liquidity. Institutional ownership significantly affect liquidity with r square 41,95%. The data also shows that during the period of observation, the percentage of institutional ownership tend to decrease. On the other hand, liquidity which was measured by bid-ask spread shows that the spread tend to wider, indicating asymmetry information in Indonesia Stock Exchange. The statistic also shows that the decreasing of institutional ownership might be causing the wider spread of liquidity.

## 6. CONCLUSION

The result shows that there is a negative significant influence of institutional ownership to liquidity. This can occur for several reasons among which is if Institutional investors in Indonesia adopt a buy-and-hold strategy, their lack of active trading, together with their perceived information advantage, may reduce liquidity. The institutional ownership as the majority tend to monitoring the company only on their own interests. The greater the institutional ownership would make minority interest be unnoticed.

The result of stock liquidity that shows the same trend in each stock may be caused by macro factors affecting the company globally. Further research may add an external factor to complement this research.

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