Firm size, ownership structure, and systematic liquidity risk: The case of an emerging market

Ahmet Sensoy

Bilkent University, Faculty of Business Administration, 06800, Ankara, Turkey

Abstract

Previous studies support the hypothesis that institutional ownership leads to an enhanced systematic liquidity risk by increasing the commonality in liquidity. By using a proprietary database of all incoming orders and ownership structure in an emerging stock market, we show that institutional ownership leads to an increase in commonality in liquidity for mid-to-large cap firms; however, only individual ownership can lead to such an increase for small cap firms, revealing a new source of systematic liquidity risk for a specific group of firms. We also reveal that commonality decreases with the increasing number of investors (for both individual and institutional) at any firm size level; suggesting that as the investor base gets larger, views of market participants become more heterogeneous, which provides an alternative way to decrease the systematic liquidity risk.

Keywords: Commonality in liquidity, systematic liquidity risk, order book, firm size, ownership structure

JEL: D23, D82, G12, G14, G23

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*Contact information; Tel: +90 532 695 99 43 / Postal address: same as address a.

Email address: ahmets@fen.bilkent.edu.tr (Ahmet Sensoy)
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