Accepted Manuscript

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

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PII: S1572-3089(17)30444-8
DOI: http://dx.doi.org/doi:10.1016/j.jfs.2017.06.007
Reference: JFS 557

To appear in: *Journal of Financial Stability*

Received date: 10-8-2015
Revised date: 18-6-2017
Accepted date: 21-6-2017

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

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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

[☆]A part of this worked was completed while the author was working at Borsa Istanbul.

[☆☆]An earlier version of this paper was presented at the conference on Institutions, Governance and Finance in Globally Connected Environment co-organized by International Finance and Banking Society, and Said Business School, Oxford University, September 12-13, 2015; Finance Seminar at Bank of England, September 29, 2015; Borsa Istanbul Finance and Economics Conference, October 1, 2015; Ozyegin University, February 6, 2017; and Bilkent University, March 14, 2017. I thank participants for insightful suggestions. I would also like to thank the editor Iftekhar Hasan and two anonymous reviewers that helped to improve this paper significantly.

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