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The Influence of Stock Trading Volume, Size Asset and Cash Flow on Bid Ask Spread at First Operation of Bursa EFEK Indonesia

Trie Nadilla ^{a*}, Desy Puspita ^b, Azlina^a, Ricky Ariansyah^c, Saiful Bahgia^d

^aDepartment of Financial Analysis, Politeknik Kutaraja, Banda Aceh, Indonesia

^bDepartment of Public Financial Management, Politeknik Kutaraja, Banda Aceh, Indonesia

^cDepartment of Office Administration, Politeknik Kutaraja, Banda Aceh, Indonesia

^dDepartment of Accounting, Politeknik Kutaraja, Banda Aceh, Indonesia

trienadilla@yahoo.co.id

Abstract

The purpose of this study is to examine the effect of stock trading volume, asset size and operating cash flow on bid ask spread on the initial operations of the Bursa Efek Indonesia. Population selection is using the census and event window methods, and using lead 5 and a lag of 5 exchange work days. The type of data used in this study is secondary data and cross sectional data which is carried out by collecting daily data of manufacturing companies published by the IDX and then classified by companies which include shares of the LQ 45 index then analyzed using multiple linear regression methods. The result shows that stock trading volume has positive influence on bid ask spread. Furthermore, asset size has significant influence on bid ask spread and operating cash flow has no influence on bid ask spread

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Key-word: - Stock trading volume, Asset Size, Operating Cash Flow, Bid Ask Spread, Event Window, IDX

1. Introduction

In competitive and open globalization era, construction attempted economic growth of a country is going to be very important. (Supriyanto, 2013). Every company aims to maximize its stakeholders (Supriyanto and Lestari, 2015). Investors need to have a number of asymmetry information to make decisions about company investment (issuers) which is deserved to form in a portfolio. In the study of Glosten and Harris (1998), found evidence that changes in the investment spread in a significant amount caused by asymmetric information. If investors has a number of welcome investment and the information, it is expected to have a change in the value of the investment (Ambarwati, 2008). Bid ask spread is the difference of highest purchasing price and the lowest selling price of the investment made by the trader (Mardiyah, 2002). Stoll 1989 in Halim and Hidayat (2000) states that the bid ask spread has function in the three cost components, derived from (1) inventory holding, (2) order processing (3) asymmetry Information. Security ownership costs consist of price risk and opportunity cost associated by investor. Processing fees are related to costs for managing trade, recording transactions, administration, telephone, etc. Meanwhile, the cost of asymmetry information asymmetry is the cost caused by a different trader and accessing information where the first part is an informed trader who has superior information and the other part is a un-informed trader who has no information. The difference in terms of information presents a risk for those who have information, therefore to cover their losses reflected in the bid ask spread as a measure of information costs, the costs incurred by traders can be compensated. The study of bid ask spread can be conducted by observing some influential factors to bid ask spread, such as stock trading volume, size asset and operational cash flow. The variables of stock trading volume refers to how active the investment favored by investors so the bid ask spread is getting less (Ambarwati, 2008). Asset size is a benchmark to describe the size of the company because the size of the company is often seen by capital market investors as a condition that shows the company provides quality information (Barry and Brown, 1984 in Tumirin, 2005). Bid Ask spread is also influenced by information on cash flow from operating activities where the company's cash is able to finance all of the company's operations. According to Sharif (2002) cash flow statement information contains empirically investment that investigates the influence of cash flow on bid ask spread on companies listed on the JSE by applying event study method during the initial operation of the Bursa Efek Indonesia on December 3, 2007.

By observing its first operation, it aims to observe the level of efficiency and liquidity of transactions in the capital market. The issue of this study applies the window period (event window), which is the lead and lag 5 business days. This is conducted to avoid bias with other events yet the window is not too long. Meanwhile in the sample selection the researchers apply companies incorporated in the LQ 45 index share listed on the Bursa Efek Indonesia. Researchers took LQ 45 index shares because investors will tend to be interested in the most liquid (active) companies.

2. Methodology

2.1. scope of the research

The scope of this study is limited to the discussion of the influence of Stock Trading Volume, Asset size and Operating Cash Flow on incorporated companies in the LQ 45 index in 2007 on the Bursa Efek Indonesia

2.2. Data Analysis method

The Data was analyzed by multiple linear regression (Multiple Linear Regression) which correlate some independent variables with a dependent variable. In this study cross sectional data was applied. Cross sectional data is normally called as a period data that is form in a group of data to study a case or phenomena in a period of time (Umar 2005 :43). The quotation will be as follow;

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Information :

Y	= <i>Bid Ask Spread</i>
α	= constants
$\beta_1, \beta_2, \beta_3$	= regression coefficient
X ₁	= stock trading volume
X ₂	= <i>Asset Size</i>
X ₃	= operational cash flow
ε	= Term of Error

2.3. Hypothesis

Based on the background of the study and theoretical framework defined important variables in a case and determine the correlation among variables through logical thinking, so the hypothesis will be formulated as follows;

- H₁ : stock trading volume, size asset and operational cash flow influenced simultaneously on bid ask spread.
- H₂ : stock trading volume influenced on bid ask spread
- H₃ : Asset size influenced on bid ask spread
- H₄ : operational cash flow influenced on bid ask spread

3. LITERATURE STUDIES

3.1 Trading system in an agency

Trading transaction in BEI applied order driven market system and continuous auction system. Trading transactions on the IDX use the order driven market system and continuous auction system. By applying an order driven market system, buyers and sellers of securities who want to make transactions must go through a broker (Widoatmojo, 2008: 4). Investors cannot directly make transactions on the trading floor. Brokers can also make transactions for themselves in form of a portfolio. This staff is called the securities dealer-representative broker or Securities Brokerage Representative (WPPE). Then, the transaction price is determined by supply and demand from investors. For manual systems, ask prices and bid prices from investors are issued by brokers on the stock exchange floor. As in the auction market, transaction prices are determined if there is a meeting between the bid and ask prices. In an automated system with JATS, brokers enter orders from investors to JATS workstations on the stock exchange floor. Then this order will be processed by the JATS computer who will find a suitable transaction price taking into account the order time of the order. This auction system will continue to be carried out continuously until an agreement is found. The way to get the price above is by using a continuous auction for regular transactions. The price of this regular transaction which will be used as the price listed on the exchange and distributed throughout the world.

3.2 Bid Ask-Spread Theory

According to Eisenhardt (1989) cited in Mardiyah (2002) stated that that agency theory uses three assumptions of human nature, namely: 1) Humans are generally self-interested; 2) humans have limited thinking power about the perception of the future (bounded-rationality); and 3) humans always avoid risk-averse. Agency problems occur with dealers or market-makers. The uncertainty faced by dealers is due to asymmetry information. To reduce this uncertainty, the dealer needs information. To obtain information, costs are needed, the amount of information imbalance faced by the dealer will be reflected to the spreads determined. Halim and Hidayat (2000) define bid ask spread as the difference between the highest purchase price that a dealer is willing to buy at the lowest selling price that the dealer is willing to sell. Spreads on the Bursa Efek Indonesia are market spreads. This is because Bursa Efek Indonesia's activities are more competitive market matching orders or known as order-driven market systems where investors can only be

allowed to submit buying and selling orders and conducting broker transactions.

3.3 Cash flow from operational activity

Explanation of cash flows from operational activities according to the Indonesian Institute of Accountants (IAI) in PSAK (2009: 2.12), namely:

The amount of cash flow from operating activities is an indicator that determines whether the company's operations can generate sufficient cash flow to pay off loans, maintain the company's operating capability, pay dividends and make new investments without relying on external funding sources. Information about certain elements of the theoretical cash flow along with other information is useful in predicting future operating cash flows.

3.4. stock trading volume and Bid Ask Spread

Spread is inversely related to the number of stock trading activities because stocks with more trading activities tend to have low ownership costs, so the bid ask spread is smaller. The smaller number of trades, the less trader will get the spread (by buying with bid price and sell with ask price).

So, trader need more spread to get sufficient compensation level for more often trading securities.

3.5. Asset Size and Bid Ask Spread

One of the assessment conducted by an investor when determining to buy an investment is that observing the size of the company, the size of company will be peroxided by size asset. Normally the size of the company is seen by capital market investor as a condition of the ability of the company which provides qualified information (Tumirin, 2005).

3.5 Operating cash flow and Bid Ask Spread

Operational activities are the first company income (principal revenue activities) and they are indicators to decide whether the company operation produce enough cash to pay the loans maintain the company's operating capability, pay dividends and make new investments without relying on external funding sources. The information of operating cash flow can securities assessment for conducted by investor (Stephen, 1999 dalam Tumirin, 2005).

4.1. Results and Discussion

The analysis was conducted based on formulated hypothesis. The data was cross sectional data. It was tested as follows;

1. Bid ask spread was measured by relative bid ask spread found that in ask price and bid price on the t-day can be seen in a day stock of data.
2. Stock trading volume is obtained from the number of shares traded on the t-day which can be seen from the daily stock data.
3. Asset Size is obtained by looking at the issuer's asset size which can be seen from the balance sheet on September 31, 2007
4. Operating cash flows using operating cash flow ratios such operating cash flow operations divided by asset size.

The influence of stock trading volume on bid ask spread

Regression correlation of stock trading volume is 0,004 it states, every raising 100% of stock trading volume, relatively raise bid ask spread 0,4% by assumptions that other independent variables are constants. This means that the trading volume of investment has a significant positive influence. The results of this study are not going together with the research conducted by Ambarwati (2008) and Tumirin (2005), Halim and Hidayat (2000) and Ryan (1998) who concluded that the testing of stock trading volume of the bid ask spread shows a significant negative influence. However, this study is line with the study conducted by Barbara Gunawan dan Yulia Indah (2005) cited in (2008) and Menyah and Paudyal (1996) in Rahardjo (2004) who stated that stock trading volume influence significantly positive on bid ask spread saham.

The influence of stock Asset Size saham on bid ask spread.

Variabel asset size score β as 0,002 stated raising 100% asset size relatively increase bid ask spread sebesar 0,2% by assumption that other independent variables are constant. This means that asset size has a positive influence on bid ask spread. The large asset size is able to attract investors to own the company's shares so that the frequency of stock trading transactions increases and has implications for the reduced bid ask spread. The results of this study are not in line with Ryan (1996) stated a significant negative influence on bid ask spread and research conducted by Tumirin (2005) which states that asset size has no significant influence on bid ask spread.

The influence of operating cash flow on Bid Ask Spread

Operating cash flow has β as 0,000, it could be concluded to accep H04. Logically, the knowledge of bid ask spread is needed for investors to obtain capital gains because bid ask spread is seen as one of the cost components in stock trading. Therefore, operating cash flow is not used as a reference for stock transaction by investors to obtain capital gains because operating cash flow is used as a reference to get dividends. This research is consistent with Tumirin (2005) which concludes that operating cash flow has no information content in assessing a company's stock. However, the results of this study differ from Sharif (2002) which shows that changes in operating cash flows actually provide additional information to the securities market which indicates that the bid ask spread is decreasing.

5. Conclusions

Stock trading volume, size asset and operating cash flow is simultaneously influenced on bid ask spread on the first operation BEI. Size asset influenced bid ask spread on the first operation of BEI. Cash flow has no influence on bid ask spread on the first operation of BEI.

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