



WHO DRIVES STOCK TRADING? ANALYZING THE IMPACT OF FOREIGN AND LOCAL OWNERSHIP ON TRANSACTION VALUE

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ARTICLE INFO

Article history:

Received January 10, 2025

Revised, January 20, 2025

Accepted, January 30, 2025

Available online, February 10, 2025

Keywords: *Transaction Value; Foreign and Local Ownership; Institutional and Individual Ownership; Market Trust*

ABSTRACT

This study examines the trust of market participants by analysing the dynamics of transaction value as an indicator of the perception of changes in foreign and local ownership. This study discusses the difference in impact between institutional and individual ownership. This study involves five variables where transaction value is the dependent variable and foreign ownership and local ownership are the independent variables. We also reduce the independent variables into institutional (corporate) and individual forms, respectively. The results show that all independent variables have a significant impact on transaction value but only individual local ownership has a negative direction.



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1. INTRODUCTION

Strong capital market plays an important role in driving economic growth, creating jobs, and enhancing innovation and competitiveness. Greater access to funding through capital markets allows companies to grow and attract investment, both domestic and foreign. Developed countries such as the US, Japan, China and Western Europe have proven that active capital markets contribute greatly to economic stability. One of the key instruments in the development of capital markets is the Initial Public Offering (IPO), which enables companies to obtain new funding, increase liquidity, and improve ownership structure. In developing countries, IPOs play a crucial role in strengthening capital markets, although their success is often affected by factors such as information asymmetry, stock underpricing, and the level of investor protection (Pešterac, A., 2020). The existence of a capital market in a country allows listed companies to obtain funding not only from within the country, but also from abroad. In addition, capital markets also provide opportunities for issuers to obtain funding from various sources, both individual investors and institutional investors.

Studies have found that foreign ownership is positively associated with earnings quality measures such as persistence and value relevance (An, 2019). Companies with greater foreign ownership are aligned with higher financial disclosure quality (Vo & Chu, 2019). Foreign ownership can also have a positive influence on companies in terms of compliance with regulations and higher standards (Shubita & Fawzi Shubita, 2019). Foreign investors often apply strict international standards in their business practices. By engaging the company in better standards, foreign ownership can help improve the company's transparency, accountability and risk management. Furthermore, based on Institutional Theory, it can be expected that institutional ownership will have a stronger monitoring and controlling influence than individual ownership. Institutional theory studies how the reciprocal relationship of institutions and social norms affects organisational behaviour. Institutional theory states that institutions have a strong influence on individual behaviour and actions because they provide guidelines, norms and rules that govern social interactions. Institutions also become similar to their environment and tend to adopt structural elements

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that are patterned in their environment (Meyer & Rowan, 1977). Institutions play an important role in analysing organisational design and behaviour. Institutions are defined as the unquestioned beliefs, rules and norms that shape the creation and spread of organisational forms, and practices (Berthod, 2016).

Indonesia has a significant history of corruption cases involving revenue manipulation and unethical accounting practices. Cases such as corruption, misappropriation of state funds, or cases of bribery in both the public and private sectors are still quite common. According to the Corruption Perceptions Index data, in 2023 Indonesia ranked 115 out of 180 with a score of 34 out of 100 points. This position has dropped 4 places since 2021. Therefore, Indonesia is an important place to conduct research with a topic that raises the issue of controlling and monitoring mechanisms for business processes so that it is possible to test whether foreign ownership can be an alternative tool for controlling and monitoring issuers which can then be taken into consideration by the government regarding the Foreign Investment Law.

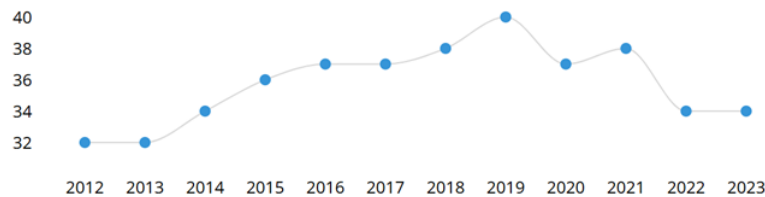


Fig.1 The CPI Score Chart
Source: Corruption Perception Index

On the other hand, Indonesia has a growing capital market with increasing participation of local and international investors. There has also been an increase in the number of issuers on the stock exchange.

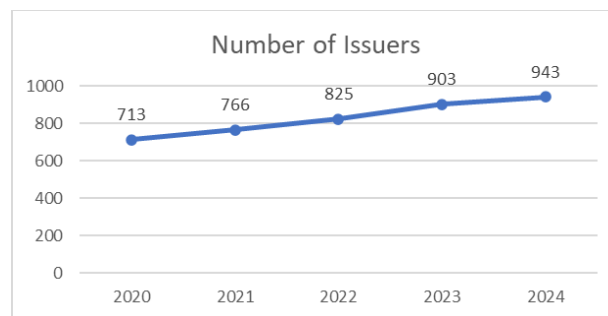


Fig. 2 Growth Chart of Number of Issuers
Source: Badan Pusat Statistik

According to the World Bank data, foreign investors in Indonesia come from countries that have a relatively higher level of governance than Indonesia, especially in the aspects of Control of Corruption, Rule of Law, Regulatory Quality, and Government Effectiveness.

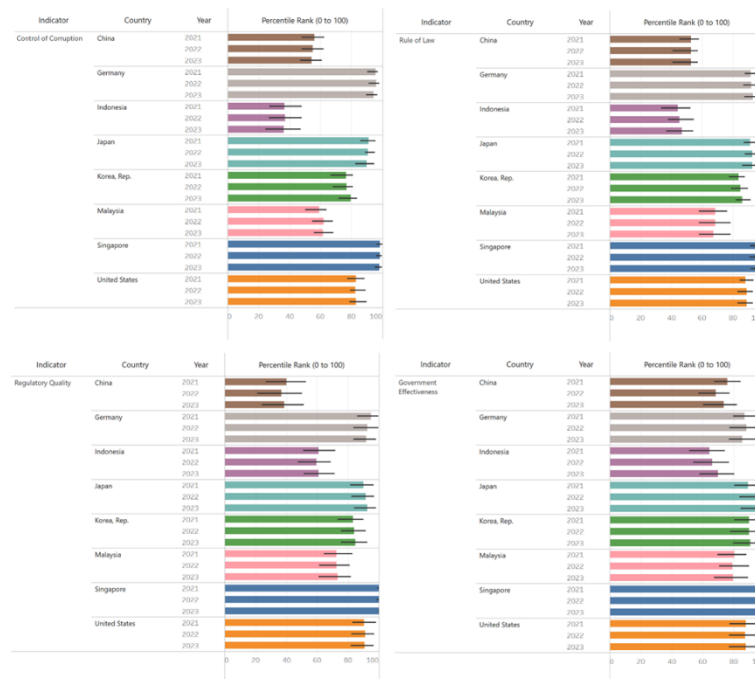


Fig. 3 Governance Score Chart

Source: Worldwide Governance Indicators, World Bank

This study aims to capture the phenomenon of market participants' trust by measuring the dynamics of transaction value as an indicator of their perception of the impact of changes in ownership composition, both foreign ownership and local ownership. In addition, this study also further elaborates the difference in impact between institutional ownership and individual ownership.

Foreign corporate ownership

Research indicates that foreign ownership can enhance firm value through improved access to international capital markets and advanced technologies, which can lead to better operational efficiencies and increased competitiveness (Al-Khasawneh & Staytieh, 2017). For instance, Al-Khasawneh and Staytieh found that firms with higher foreign ownership could leverage international resources, thereby positively impacting their capital structure and overall firm value (Al-Khasawneh & Staytieh, 2017). This is echoed by Driffield et al., who argue that foreign ownership can facilitate the transfer of advantages from parent companies to their subsidiaries, thus enhancing productivity and performance (Driffield et al., 2018). However, the relationship is not universally positive. Several studies highlight the potential drawbacks of foreign ownership. Aksan and Gantowati found that foreign ownership did not significantly impact firm value in their study of Indonesian firms, suggesting that local investors might still dominate performance metrics (Aksan & Gantowati, 2020). This aligns with findings from Naidu et al., who reported that while foreign ownership could positively impact return on equity at lower levels, it could have adverse effects at higher ownership levels (Naidu et al., 2021).

Foreign individual ownership

The impact of foreign individual ownership on transaction value is a critical area of study in finance, particularly in the context of how ownership structures influence firm performance and market dynamics. Foreign individual investors can significantly affect transaction values through their investment behaviors, which are often shaped by their unique characteristics and the market environment in which they operate. Research indicates that foreign individual investors tend to exhibit different trading behaviors compared to domestic investors, which can influence transaction values. For instance, studies have shown that foreign investors often have access to superior information and exhibit more sophisticated trading strategies, leading to better trading outcomes and potentially higher transaction values (Park et al., 2020). Additionally, the concentration of ownership can influence how foreign individual investors impact transaction values. Research by Yatim et al. indicates that foreign investors prefer firms with certain characteristics, such as being large and having low debt levels, which can enhance firm value and, consequently, transaction values (Yatim et al., 2014). This preference can lead to a concentration of foreign individual ownership in firms that are perceived as more stable and valuable, further driving up transaction

prices. However, the effects of foreign individual ownership on transaction values are not universally positive. For instance, Ali et al. noted that the ownership structure of a firm can affect dividend smoothing, which in turn can influence the perceived value of the firm and its transactions (Ali et al., 2022). This implies that while foreign individual ownership can enhance transaction values, it can also introduce complexities that may dampen their overall impact.

Local corporate ownership

Local corporate ownership, characterized by domestic investors holding significant stakes in companies, can lead to various outcomes that affect transaction values. The concentration of ownership among local investors can lead to a more stable investment environment, which is attractive to potential investors. Sari et al. found that firms with concentrated ownership structures tend to exhibit more consistent performance, which can lead to higher transaction values as investors perceive these firms as less risky (Sari et al., 2016). This stability can be particularly beneficial in emerging markets, where investor protection may be weaker, and local investors are more attuned to the nuances of the market (Sari et al., 2016). The effects of local corporate ownership on transaction value are not universally positive, while concentrated ownership can enhance governance, it can also lead to tunneling behavior, where controlling shareholders engage in transactions that benefit themselves at the expense of minority shareholders. This behavior can diminish overall firm value and negatively impact transaction prices (Sari et al., 2016). Additionally, the presence of local corporate ownership can sometimes lead to entrenchment effects, where dominant shareholders prioritize their interests over those of the company, potentially leading to suboptimal decision-making and reduced transaction values (Mykhayliv & Zauner, 2013).

Local individual ownership

The concentration of ownership among local individual investors can lead to a more stable investment environment, which is attractive to potential investors. For instance, the study by Attarit found that firms with concentrated local ownership structures tend to exhibit more consistent performance, which can lead to higher transaction values as investors perceive these firms as less risky. This stability can be particularly beneficial in emerging markets, where investor protection may be weaker, and local investors are more attuned to the nuances of the market (Attarit, 2023).

The effects of local individual ownership on transaction value are not universally positive. While concentrated ownership can enhance governance, it can also lead to entrenchment effects, where dominant shareholders prioritize their interests over those of the company. This behavior can diminish overall firm value and negatively impact transaction prices (Sadiq, 2023). The presence of local individual ownership can sometimes lead to expropriation risks, where controlling shareholders engage in transactions that benefit themselves at the expense of minority shareholders, further complicating the relationship between ownership and transaction values (Fatchan, 2023).

2. METHODS

This study uses a quantitative approach by applying multivariate analysis to examine the relationship between share ownership and stock transaction value. This study involves five variables, consisting of one dependent variable, namely stock transaction value, as well as four independent variables, namely foreign corporate ownership, foreign individual ownership, local corporate ownership, and local individual ownership.

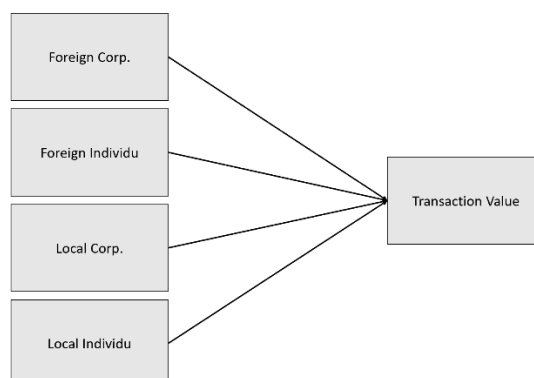


Fig.4 Research Model Diagram

The data used is secondary data obtained from the Indonesia Stock Exchange (IDX). The population in this study includes all issuers listed on the IDX until 31 December 2024, with the sample selected based on the criteria of issuers that have been listed since 2022 until 31 December 2024. From these criteria, this study involved 824 issuers. The research period was set from 2022 to 2024 with the consideration of avoiding anomalies in the impact of the COVID-19 pandemic, so that the results obtained better reflect stable capital market conditions and are not distorted by extreme external factors.

3. RESULTS AND DISCUSSIONS

Table 1. Results Of Data Analysis

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	216360088000273.030	81272765494562.060		2.662	.008
LocalCP	40175.647	12387.232	.069	3.243	.001
LocalID	-2.385	.405	-.148	-5.882	.000
ForeignCP	.393	.075	.164	5.223	.000
ForeignID	1273157.757	301358.398	.116	4.225	.000

The results of data analysis show that the four independent variables, local corporate ownership, local individual ownership, foreign corporate ownership, and foreign individual ownership, have a partially significant impact on the dynamics of the issuer's stock transaction value on the stock exchange. However, only local individual ownership gives a negative direction, which means that the higher the local individual ownership, the lower the transaction value, or vice versa. This strengthens the indication that foreign ownership will lead the confidence of market participants based on the assumption that foreign investors tend to have higher caution in determining issuers to invest in, causing the transaction value of the issuer's shares to increase when foreign ownership of the issuer's shares increases.

Furthermore, in both local and foreign contexts, institutional (Corporate) ownership of the issuer's shares has a stronger influence on transaction value than individual ownership. This can be seen from the t-statistic value. This phenomenon can be explained by Institutional Theory which states that ownership by institutions will have a stronger supervisory and controlling influence compared to individual ownership (Meyer & Rowan, 1977). This in turn leads the confidence of market participants to prefer issuers that have a positive movement in the number of institutional investors, both foreign and local. Meanwhile, the comparison of the t-statistic value between foreign and local institutional ownership again proves that market players tend to 'trust' the issuers chosen by foreign investors.

4. CONCLUSION

Foreign investors, both in the form of institutions and individuals, have proven to have an important role in 'revitalising' the market. Furthermore, institutional investors, in the context of this study are companies, have a greater influence when compared to individual investors. This result can be a trigger for all issuers in Indonesia to perform better, both in terms of business processes and in terms of compliance with applicable regulations and standards in order to attract the attention of foreign institutional investors. Furthermore, this research can also be a consideration for the government in formulating foreign investment policies in order to obtain optimal benefits.

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