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Insider ownership, bid–ask spread, and stock splits: Evidence from the Stock Exchange of Thailand

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Abstract

This paper examines the moderating effect of insider ownership on bid–ask spread changes during stock splits in Thailand, an economy with highly concentrated ownership structures. Consistent with the liquidity hypothesis, the overall finding shows that bid–ask spread declines significantly after stock splits. The results also indicate that there is a significant relation between insider ownership and the change in bid–ask spread. Specifically, significant reductions in bid–ask spread occurred mostly among firms with low levels of insider ownership before stock splits. Bid–ask spreads remain virtually unchanged for shares with high ownership concentration. The findings highlight the link between corporate governance structure, market microstructure, and corporate financial decisions in emerging markets.

JEL classification: G14; G15; G32
Keywords: Bid–ask spread; Liquidity hypothesis; Insider ownership; Stock split; Thailand

1. Introduction

During the past decades, considerable attention has been devoted to examining the relation between insider ownership and various corporate financial decisions. The reason is that insider ownership plays a critical role in the agency conflicts between managers and shareholders arising from the separation of ownership and control (Jensen & Meckling, 1976). Morck, Shleifer, and Vishny (1988) and McConnell and Servaes (1990) investigate the relation between managerial

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