Journal of Financial Management Strategy
Alzahra University
Vol. 10, No. 37, Summer 2022

pp. 21-22

Research Paper

Review the effect of company size on stock liquidity concerning Companies life cycle listed companies at Tehran stock exchange[1]

Ali Ashtab[2], Hamideh Mohammadzadeh[3], Akbar Zavari rezaei[4]

Received: 2019/10/30 Accepted: 2020/04/16

Introduction

The capital market is one of the essential resources for companies and governments to finance and is recognized as a good option for investment worldwide. Stock liquidity is a paramount factor for capital market participants. Liquidity is one of the concerns of those who trade stocks or manage the trading infrastructure. One of the most critical indicators in examining the market situation is the liquidity of the securities. The other factor is the size of the company which indicates the volume and scope of its activities. Instead of physical capacity, indexes that represent a firm's performance are often used as an indicator of company size. Company size is measured in different ways such as company sales, daily or book value of total company assets, etc. Considering the liquidity and size of the company, all living things, including plants, animals, and humans, all follow the life curve.

According to life cycle theory, companies and enterprises, like all beings, have a curve or life cycle. Life cycle theory states that companies are following a specific procedure, including birth, growth, maturity, and decline.

Purpose

The primary purpose of this study is to answer the question: Does the size of the company affect the liquidity of stocks? Another question that needs to be answered is: whether the relationship between firm size and stock liquidity is affected by the firm life cycle.

Research hypotheses

Main hypothesis: Company size has a significant impact on stock liquidity.

Sub -hypotheses:

- The company size has a significant effect on the liquidity of the stock during its growth period.
- The company size has a significant effect on the liquidity of the stock during its maturity period.

---

1. DOI: 10.22051/JFM.2022.37898.2604
2. Assistant Professor of Urmia University, Department of Accounting, Faculty of Economics, Urmia Branch, Urmia Iran. Email: a.ashtab@urmai.ac.ir.
3. Master of Accounting. (Corresponding author). Email: hamideh.mohammadzadeh2015@gmail.com.
4. Assistant Professor of Urmia University, Department of Accounting, Faculty of Economics, Urmia Branch, Urmia Iran. Email: a.zavarirezaei@urmai.ac.ir.

- The company size has a significant effect on the liquidity of the stock during its decline period.

Research Methodology

This study is descriptive in aim and uses correlation and causal methods to interpret the results. The required information was collected from specialized journals. The Kodal site has also been used to access the needed data. The software used for data analysis was SPSS, STATA14, and Eviews10. The statistical population is composed of companies accepted on the Tehran Stock Exchange between 1977-2008. The sampling was done through the systematic removal method, and finally, 115 companies were selected.

Results

Test of research hypotheses

Hypotheses were tested using multiple regression and a hybrid data model.

Discussion and conclusion

This research sought to answer the question of whether the size of the company is influential on the company's stock liquidity and whether the relationship between these two variables is affected by the firm life cycle. Based on the results of the hypotheses test, it was found that the size of the company had a positive and significant effect on the liquidity of the stock; that is, as the company size increases, the liquidity of the stock significantly increases. With the introduction of the life cycle as a modulator variable, it was found that the size of the company, except in the growth phase, increased the liquidity of the stock. It was also found that the life cycle variable has no adjustment effect between the size of the company and the liquidity of the stock.

Suggestions

According to the results of this study, it is recommended that the Securities and Exchange Organization (SEO) encourages companies to increase their floating shares. Also, we suggest to investors buy stocks that are determined by criteria such as the percentage of floating stocks so that they can buy a high liquidity-power stock. Because the investors' behavior is different in small and large companies, we suggest that investors pay attention to the size of the company as an indicator of its stock liquidity. Since corporate liquidity rank indicates the amount of liquidity of their stocks, future researchers are suggested to examine the effect of the company's size on the liquidity rank to determine to what extent the rank announced by the Stock Exchange impacts the company's size. Also, since there are various criteria for calculating liquidity, instead of what we used in this paper, researchers can use other liquidity criteria, such as the modified Amihud index, the Liua index, the zero-return index, and the turnover volume index. In addition, the impact of the company's size on stock liquidity can also be examined based on the type of the industry and the type of the company (stock market or OTC market).

Keywords: Company Size, Corporate Life Cycle, Stock Liquidity.
JEL: G11.