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Literature Review on the Influence of Board Structure and Financial Transparency on Stock Liquidity

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ABSTRACT

This study aims to systematically examine the influence of board structure and financial transparency on stock liquidity based on a review of literature from various recent national and international sources. This study stems from the urgency of stock liquidity as an indicator of capital market efficiency and investor confidence, where the two main variables, namely board structure consisting of the proportion of independent commissioners, the role of the audit committee, and board size efficiency, as well as financial reporting transparency, are considered determinants of a healthy stock market. The research method used a literature review with a selection of studies published in the last five years, both empirical and conceptual. The results of the literature synthesis show that a good board structure and transparent financial reporting play a positive role in increasing stock liquidity, reducing information asymmetry, and encouraging investment efficiency. These findings emphasize the importance of strengthening corporate governance and information disclosure as key agendas in supporting the stability and attractiveness of the Indonesian capital market. The implications of this study are relevant for companies and policymakers in formulating strategies to strengthen the capital market ecosystem based on governance and transparency.

Keywords: Board Structure, Financial Transparency, Stock Liquidity.

INTRODUCTION

Stock liquidity is one of the important indicators in assessing capital market efficiency and corporate financial health. The definition of stock liquidity refers to the ability of a stock to be traded quickly and in large quantities without significantly affecting the price. Good liquidity in the stock market indicates investor confidence in the quality of corporate governance and transparency, making it easier for companies to obtain funding and mitigate short-term liquidity risks (Quah et al., 2020). In recent years, the number of retail investors in Indonesia has increased rapidly, and as of August 2025, there were more than 18 million active stock investors, contributing to increased activity and liquidity in the national capital market.

Various literature confirms that effective corporate governance, particularly in terms of board structure and financial transparency, plays a central role in promoting a liquid stock market. An ideal board structure is characterized by a sufficient proportion of independent commissioners, active involvement of the audit committee, and an efficient board size. These characteristics facilitate effective oversight of management, improve the quality of reporting, and reduce information asymmetry in the eyes of investors. Several international studies, such as Qiu and To (2022), also confirm that governance reforms and strengthening the role of the board can increase stock liquidity in emerging markets.

Financial transparency serves as a positive signal to the market. Timely, complete, and comparable financial reporting across periods will increase investor confidence and facilitate

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the investment decision-making process. This is supported by a study by Nguyn, Vu, and L (2025), which found that financial reporting transparency has a positive relationship with investment efficiency and stock liquidity. The lower the information gap between companies and investors, the higher investor confidence and the greater the opportunity for increased stock liquidity.

This literature review focuses on two main aspects, namely the influence of board structure and financial transparency on stock liquidity, given that these two variables occupy a key position in the agenda for improving corporate governance and strengthening the Indonesian capital market ecosystem. Although governance policies and practices have been widely adopted by companies, studies reviewing the direct influence of these two aspects on stock liquidity, particularly in Indonesia, still show mixed results, requiring a more comprehensive synthesis of the literature.

Thus, this article aims to critically examine previous findings on the relationship between board structure and financial transparency on stock liquidity, as well as to encourage theoretical and practical recommendations in support of the agenda for improving governance and transparency in capital markets in developing countries such as Indonesia.

LITERATURE REVIEW

Board Structure

The structure of the board is one of the most important pillars of good corporate governance. Key characteristics that are often studied include the proportion of independent commissioners, the size of the board, the competence of board members (especially those who are members of the audit committee), and the frequency of board meetings. An effective board of commissioners can minimize conflicts of interest between management and shareholders and improve internal oversight. Research by Qiu and To (2022) confirms that improvements in board structure, such as increasing the proportion of independent commissioners and the effectiveness of audit committees, have a positive effect on stock liquidity, particularly in emerging markets such as Indonesia, by showing a tendency for high trading activity and reduced information asymmetry. Other variables, such as the financial experience and share ownership of board members, also play a significant role as direct oversight mechanisms.

Financial Transparency

Financial transparency is defined as the openness, completeness, and timeliness of a company's financial reporting to the public. The openness of information in financial reports can reduce information asymmetry between companies and shareholders/investors, thereby reducing pricing risk and increasing stock liquidity. A study by Nguyen, Vu, and L (2025) proves that high transparency, especially in terms of timeliness and comparability of reporting, is positively correlated with investment efficiency and stock trading volume. Clarity and consistency in reporting strengthen investor confidence and facilitate investment decision-making.

Stock Liquidity

Stock liquidity is the ability of a stock to be traded in large quantities and in a short period of time without significantly affecting the price. A high level of liquidity reflects

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market efficiency and investor confidence in the quality of management and transparency of the company. In the development of the Indonesian capital market, the rapid growth in the number of retail investors has contributed to increased liquidity, but volatility remains influenced by global and domestic factors. Research by Quah et al. (2020) shows that stock liquidity also reflects a company's ability to mitigate short-term liquidity risk, as well as the ease of access to external funding.

Agency theory

Agency theory (Jensen and Meckling, 1976) explains the relationship between principals (shareholders/investors) and agents (management). Conflicts of interest between the two parties give rise to agency costs that need to be managed so that corporate decisions continue to prioritize the interests of shareholders. In this context, the board structure becomes the main supervisory and control mechanism that can reduce agency costs by strengthening governance and transparency. Recent research confirms that the better the board structure, the lower the level of agency costs and the more efficient the management of the company. In practice, good structural control through regular meetings, the presence of an independent board, and the involvement of an audit committee will improve the quality of financial reporting.

Signaling Theory

Signaling theory (Spence, 1973) focuses on how companies send positive signals to investors amid information asymmetry. In the context of corporate governance, the quality and transparency of financial reports and strategic decisions made by the board (e.g., stock splits, voluntary disclosure) serve as strong signals to investors regarding the company's prospects. Financial transparency is considered a signal of management credibility and honesty, which can strengthen market confidence, reduce uncertainty, and ultimately increase stock liquidity. A study by Liu et al. (2024) using a signaling theory approach also shows that information disclosure is positively related to market valuation and investor risk perception.

METHODS

The method used in this study is a systematic literature review to understand the effect of board structure and financial transparency on stock liquidity. The literature review process began with the identification and collection of relevant literature from indexed national and international journals, books, and proceedings, focusing on studies published in the last five years to ensure the recency of the data and findings reviewed. Next, a selection was made using inclusion and exclusion criteria, namely only including literature that empirically or conceptually discusses the relationship between board structure, financial transparency, and stock liquidity, and was published in reputable journals.

All selected references were reviewed in depth by comparing and synthesizing the results of various studies related to the influence of board structure and financial transparency on stock liquidity, both thematically and narratively. The analysis also took into account differences in research results between countries and across industry sectors. During the review process, the quality and relevance of each reference were evaluated based on the methodology used and its theoretical contribution to the development of

related literature. This literature review approach aims to provide a comprehensive overview of the dynamics and trends of findings related to the influence of board structure and financial transparency on stock liquidity in various economic and regulatory contexts.

RESULTS

Table 1. Results

	Title	Authors & Year	Results
1	Does financial transparency substitute corporate governance to improve stock liquidity? Evidence from emerging market of Pakistan	Ali et al. (2021)	Corporate governance structure and board index have a significant positive effect on stock liquidity. Financial transparency moderates, acting as a substitute for weak governance.
2	Board Reforms, Stock Liquidity, and Stock Market Development	(Qiu & To, 2022)	Board reforms have been shown to increase stock liquidity by reducing information asymmetry, with an effective spread reduction of 12.7% post-reform, particularly in countries with initially lower market liquidity.
3	The Effect of Corporate Governance, Earnings Management, and Leverage on Stock Market Liquidity	Waani et al. (2025)	Transparent and efficient corporate governance reduces information asymmetry between managers and investors, thereby increasing stock market liquidity. Institutional ownership improves information quality, while earnings management has a negative effect on stock liquidity.
4	Stock Liquidity, Financial Report Quality, Wedge, and the Propensity to Pay Dividend	Setiawan (2019)	Financial transparency is an important indicator in maintaining stock liquidity, serving as a means of monitoring management performance and reducing risk for investors.
5	Board governance mechanisms and liquidity creation: Empirical evidence from GCC banking sector	Mousa (2023)	These findings reveal that certain board governance mechanisms, such as board independence, the presence of foreign directors, high levels of education, frequent meetings, and larger board size, contribute positively to increasing liquidity creation.
6	Board Structure and Stock Market Liquidity: Evidence from Saudi's Banking Industry	Almulhim, A. A. (2022)	Board size and independence positively affect stock liquidity, while board busyness has a negative impact, suggesting that larger and more independent boards can enhance liquidity by reducing agency problems.
7	The Role of Ownership Structure and Board Characteristics in Stock	(Abbassi et al., n.d.)	The structure of the board, characterized by factors such as board size, independence, and duality of the CEO, has

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	Market Liquidity		been shown to positively influence stock market liquidity, particularly in emerging markets such as South Asia, where institutional ownership and board characteristics play an important role in enhancing liquidity.
8	Transparency, Liquidity, and Valuation: International Evidence on When Transparency Matters Most	(Lang et al., 2012)	Financial transparency, which includes high-quality financial reporting and reduced revenue management, is associated with lower transaction costs and greater stock liquidity, as evidenced by lower bid-ask spreads and fewer zero-return days.
9	Corporate Governance, Legal System, and Stock Market Liquidity: Evidence Around the World	(Chung et al., 2012)	The legal and regulatory environment significantly impacts this relationship, with companies in common law countries exhibiting better governance structures and higher stock liquidity compared to those in civil law countries.
10	Corporate governance and stock market liquidity in India	(Prasanna & Menon, 2012)	In India, corporate governance reforms have led to increased transparency and stock liquidity, with foreign institutional investors playing an important role in providing liquidity to the market.
11	Financial statement comparability and stock liquidity: evidence from China	(Majeed & Yan, 2022)	Greater financial reporting, which enhances transparency, has been shown to increase stock liquidity, particularly for non-state-owned companies and those with higher institutional ownership, as it reduces information opacity and aids investor decision-making.
12	Corporate Governance and Liquidity	(Chung et al., 2010)	Companies with better corporate governance, which often includes a strong board structure, experience narrower spreads and better market quality, thereby increasing stock liquidity.
13	Corporate governance and equity liquidity: Analysis of S&P transparency and disclosure rankings	(Chen et al., 2007)	Companies with greater financial transparency and higher disclosure ratings experience lower information asymmetry and narrower stock spreads, which increases liquidity.
14	Transparency pays: How carbon emission disclosure lowers cost of capital	(Xu et al., 2024)	Carbon disclosure, a form of financial transparency, can lower capital costs by increasing stock liquidity, especially in sectors with high carbon footprints.
15	Board Structure and Stock Liquidity: An Empirical Study on Nairobi Securities	(Bichanga et al., 2021)	The board structure was found to have a negative impact on stock liquidity when measured by turnover, although it did not

	Exchange		show a significant effect when assessed through spread, illiquidity, and liquidity ratio measures.
16	Impact of board attributes on stock liquidity: evidence from Pakistani panel data	(Khan et al., 2022)	In Pakistan, certain board attributes such as board meetings, director attendance, gender diversity, and the number of board subcommittees are positively associated with stock liquidity, demonstrating the importance of active and diverse board participation.

DISCUSSION

The Influence of Board Structure on Stock Liquidity

Board structure plays a central role in ensuring that stock liquidity remains high. An effective structure is characterized by an adequate proportion of independent members, a board size that is neither too large nor too small, the level of competence of members, the frequency and quality of meetings, the involvement of the audit committee, and the diversity of backgrounds and financial experience of board members. This combination is important so that the board can truly supervise the company's operations objectively and proactively.

Studies such as Qiu and To (2022) confirm that improving board structure, particularly by increasing the number of independent commissioners and strengthening the function of the audit committee, can significantly improve stock liquidity. This occurs because information asymmetry or information inequality between management and investors is drastically reduced. As a result, the trading spread becomes narrower, and stock prices become more stable, so investors are more confident to trade, especially in emerging markets such as Indonesia. Not only that, other supporting attributes such as active member participation, gender diversity, and the existence of subcommittees also contribute to strengthening oversight functions and facilitating the flow of information between stakeholders. Khan et al. (2022) prove that the more diverse and active the board is, the smoother stock trading will be.

However, it should be noted that the positive impact of board structure on liquidity is not universal in all countries or sectors. The results of research by Bichanga et al. (2021) in the Nairobi market, for example, found that board structure actually had a negative impact on stock liquidity when trading turnover was used as an indicator. However, the effect is not significant when measured by the bid-ask spread. Therefore, it is important to always consider market specifications, sector characteristics, and country policies before formulating strategies or policies to improve board structure. In other words, the quality of board structure greatly determines investor optimism and comfort, and can be a key pillar in maintaining a healthy and liquid capital market.

The Role of Financial Transparency in Promoting Stock Liquidity

The role of financial transparency in promoting stock liquidity is very important because it is directly related to the disclosure of information presented by companies to the public. Financial transparency covers three main aspects, namely disclosure of information,

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completeness of data, and timeliness of financial reporting. These three aspects help reduce information asymmetry between companies and investors, which is often a major obstacle to stock liquidity.

Various studies show that comparative, timely, and easily accessible financial reporting can increase market confidence and facilitate investment decision-making. For example, research by Nguyn, Vu, and L (2025) and Lang et al. (2012) indicates that companies with transparent reporting will significantly reduce information asymmetry, which leads to increased stock liquidity. In China, a study by Majeed and Yan (2022) proves that high transparency in cross-period comparative financial reporting strengthens stock liquidity. This is especially true for non-state-owned enterprises with high institutional ownership, where open information reduces data opacity and helps investors make more informed investment decisions.

Beyond financial aspects, broader dimensions of transparency, such as carbon emissions disclosure, also contribute positively. Xu et al. (2024) found that carbon emissions disclosure, as a form of non-financial transparency, improves liquidity while lowering a company's cost of capital. This is because ESG (Environmental, Social, and Governance) transparency increases investor confidence and reduces trading risk. Studies in Indonesia also show that ESG disclosure has a significant effect on stock liquidity, so companies that are transparent in their ESG management tend to receive greater market support and better stock liquidity.

In conclusion, financial transparency is not only about reporting figures, but also includes broad and relevant disclosures that reduce investor uncertainty. Thus, the implementation of transparent financial reporting is key to driving stock liquidity, strengthening market efficiency, and increasing investment attractiveness in capital markets, especially in emerging markets such as Indonesia.

Implications of Agency Theory and Signaling Theory

Agency theory, developed by Jensen and Meckling (1976), explains that within companies, there is often a conflict of interest between management as agents and shareholders as principals. This conflict gives rise to agency costs, which are costs that arise due to the misalignment of interests between the two parties. One effective way to reduce agency costs is through strengthening internal control mechanisms, such as establishing audit committees, appointing independent commissioners, and ensuring transparency in company financial reporting.

A well-structured board of commissioners not only functions as a supervisory body, but also acts as a bridge between the interests of management and shareholders. An independent board composition, an active audit committee, and open reporting will narrow the information asymmetry gap between the company and its investors. Reduced information asymmetry leads to lower agency costs, more timely and higher quality reporting, and a more efficient decision-making process. The efficiency of company management also increases due to better supervision and decisions that are in line with the interests of shareholders.

Meanwhile, signaling theory, introduced by Spence (1973), focuses on the importance of information disclosure by management as a positive signal to investors. In the world of investment, information disclosure sends a message or signal that indicates the company's

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professionalism, integrity, and future business prospects. If a company actively engages in voluntary disclosure, including strategic decisions such as stock splits or governance innovations, investors will view the company as more credible and less risky.

Various recent studies, such as those conducted by Liu et al. (2024) and Chen et al. (2007), confirm that information transparency and strategic board decisions can improve risk perception in the eyes of investors. As a result, stock transaction spreads become smaller, transaction costs decrease, and stock liquidity increases because investors feel more confident in making investment decisions. This is particularly important in emerging markets such as Indonesia, where information flows are often uneven, making openness the key to creating a healthy and liquid capital market.

As a practical note, companies must consistently strengthen internal governance and improve transparency. The practical implication is that the better the supervisory structure and the more transparent the company is in conveying information, the higher the level of investor confidence will be, the lower the risk, and the greater the attractiveness of investment in the capital market. This policy is not only relevant in a global context, but also highly applicable to the Indonesian capital market, which continues to grow and become more dynamic each year. Thus, the application of agency theory and signaling theory underscores that strong governance and information disclosure are not only risk mitigation tools, but also strategies to strengthen liquidity and increase the value of companies in the eyes of investors, both local and foreign.

Synthesis and Practical Implications

The results of the literature review consistently show that two important factors are key to improving stock liquidity: an independent, diverse, and active board structure and high financial transparency. A strong board structure enables strict and objective oversight of management policies, while honest and timely financial reporting builds investor confidence and reduces market uncertainty.

In practical terms, companies and regulators need to promote policies and regulations that strengthen board structure, including increasing the number of independent commissioners and enhancing the role of audit committees, as well as implementing transparent financial reporting standards in accordance with the principles of good corporate governance. Particularly in Indonesia and other developing countries, improving the quality of governance and transparency can promote a healthier, more stable, and more liquid capital market, thereby attracting more investors and making it easier for companies to access funding.

However, in implementing these interventions, it is important to understand that each industry sector has its own complexities, and regulations need to be tailored to the characteristics of the market and the local context of each region or country. Factors such as industry type, capital market maturity, and business culture must be important considerations in order for policies to be effective in increasing stock liquidity.

With the right approach, board structure and financial transparency become key pillars in driving stock market liquidity, improving capital market efficiency, and promoting economic growth through increased investment. Companies can leverage these findings by strengthening governance mechanisms and transparently disclosing financial information to build sustainable investor confidence.

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CONCLUSION

Based on the literature review that has been conducted, it can be concluded that board structure and financial transparency are two main pillars that have been consistently proven to increase stock liquidity in various capital market contexts, especially in developing countries such as Indonesia. An effective board structure, characterized by the presence of independent commissioners, an active audit committee, and diversity and participation of board members, strengthens internal oversight and reduces information asymmetry, thereby increasing investor confidence and participation in stock trading. On the other hand, financial transparency, demonstrated through complete, open, and timely reporting, sends positive signals to the market, improves risk perception, and encourages efficiency and trading volume on the stock exchange.

Theoretically, strengthening governance mechanisms through good board structure and financial information transparency is in line with the concepts of agency theory and signaling theory. Agency theory emphasizes the reduction of agency costs through effective internal supervision, while signaling theory highlights the importance of information disclosure as a means of attracting investor interest and trust. These two theories make it clear that corporate strategies for building stock liquidity must be based on strengthening governance and information disclosure.

As a practical implication, companies and regulators in Indonesia are advised to continue strengthening board structures and improving financial reporting transparency, as well as adjusting policies to the needs and characteristics of the industry. Continuous efforts to improve governance and transparency are believed to support the creation of a healthier, more stable, and more liquid capital market, thereby increasing investment attractiveness and strengthening the foundations of national economic growth.

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