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Editorial The digital transformation of our societies are in movement

Dear Colleagues,
Dear Doctorate Students,

The digital transformation of our societies is in movement. We often overlook the pace at which the changes are taking place.

During the 2015 Garcombs in Bali, we collectively decided that we would focus on and pay attention to what is happening in the sphere of digitalization.

We selected the title “Digital transformation of our societies in a volatile environment” that would reflect this intention for the 2016 Garcombs in Caen.

As a result, many papers in Caen were related to Digitization and its applications with regards to solving sustainability issues or even circular economy-related problems.

This special edition journal of Garcombs 2016 is an important landmark with papers from Indonesia, Thailand clearly reflecting the strategic orientation given one year ago in Bali. Selected fields and papers confirmed the strategic importance raised by our message.

The handpicked papers that will be published in this special edition highlight challenges and opportunities created by such disruptive technologies in our societies as they start to leave marks on the overall society spectrum.

The Scholars have captured the scope of applications in alignment with regional and international institutions supporting centres

created by our government, communities and NGO's. This confirm a mutual understanding.

A great number of papers and dissertations in this publication cover different aspects from the digital transformation journey to the crowdfunding that is redirecting investors and entrepreneurs towards other sources of funding that the traditional banking is neglecting.

New era Entrepreneurs are taken in nurseries by private companies, business associations, and NGOs. This allows them to support their ideas, their projects and lead them to a certain level of maturity in their development journey.

In order to capture the wave of innovation around the digitalization of our societies, academics, cities and communities have created structures, policies, open forums and platforms.

Our researchers through their publication on this special edition are expressing the dynamics of the ecosystem evolving around us.

We are suggesting the active reading of the journal along with more action in creating start-ups. In this environment, the opportunities seem endless.

The upcoming 2017 Garcombs event in Thailand will also be focused on the digital transformation and innovation. But the Value chain transformation will not be the only area of focus as we will be turned towards value added services and more deeply looking for the new business model where the only differentiating factor will be the limitation of our own innovation capability.

I am looking forward meeting all of you again in Bangkok in 2017.

Sincerely yours

Paul John
President of Garcombs 2016
IAE University of CAEN - France

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LIQUIDITY ADJUSTED CAPITAL ASSET PRICING MODEL (LCAPM): A CRITICAL REVIEW

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ABSTRACT

This paper shows that the liquidity adjusted capital asset pricing model (LCAPM) is simply an extension of standard capital asset pricing model (SCAPM) by taking into account the amortized transaction cost. This paper also shows that the use of amortized risk premium is very critical in order to obtain a correct result. Various contradictory results in many previous publications are shown in this paper. A simple static equilibrium that relating the investor income and expenditure, is used to explain the basic concept of LCAPM and the appropriate liquidity proxy. As the actual transaction cost is usually unknown, this paper proposes two methods to estimate transaction cost. Bid-ask spread and daily price changes are proposed as the proxy of transaction cost. Indonesia stock market characteristics are included to illustrate the importance of the concept.

Key Words: CAPM, LCAPM, Liquidity, Amortized Transaction Cost

INTRODUCTION

Frictionless is one of the basic assumptions of standard capital asset pricing model (SCAPM). In a frictionless market, we can buy or sell an asset at no cost and can be done immediately. In SCAPM, therefore, it is assumed that the market liquidity is perfect or infinite. Though the market liquidity is getting better from time to time, the liquidity is still finite and should be taken into account in asset pricing. How to take into account the liquidity in capital asset pricing model have attracted a lot of attention in the last three decades (see Amihud et.al. 2013 and Foucault et.al. 2013, for comprehensive references). In emerging markets such as Indonesia, many works have shown that the liquidity premium can be very significant (Lesmond, 2005).

Figure 1 shows the Indonesia Stock Index (IHSG) for the last 30 years. It can be seen that the index has increased more than fifty times in the last 30 years. Fast increased especially occurred in the last 10 years. A short period declined can also be seen in 2008 during financial world crises. It has been shown that the average return in Indonesia Stock exchange is the highest compared to the other countries (Liang and Wei, 2012).