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AUTHOR

Ernie Hendrawaty

WORD COUNT

3293 Words

CHARACTER COUNT

18244 Characters

PAGE COUNT

6 Pages

FILE SIZE

251.6KB

SUBMISSION DATE

Nov 9, 2022 9:06 AM GMT+7

REPORT DATE

Nov 9, 2022 9:08 AM GMT+7

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# OWNERSHIP-RETENTION AND THE VALUE OF INDONESIAN INITIAL PUBLIC OFFERING (IPO) FIRMS IN 2013-2016

Ernie Hendrawaty*, Syifa Fadiah Adlina

*Management, Faculty of Economics and Business, Lampung University, Indonesia*

## ABSTRACT

The study investigates information asymmetry between security issuers and other market participants. Investors and entrepreneurs require reliable information about the firms. Therefore, it is crucial to examine how the top management information can be communicated to other market participants. The empirical implications of the model are tested on the set of 28 of 89 Indonesian firms that made an initial public offering in 2013-2016. The asymmetry problem is most significant when a firm makes a first public issue. Furthermore, the study explains the number of shares retained by the entrepreneur as a signal of IPO firm value. The test results are generally consistent with the signaling model's predictions, while the role of the controlling variables does not support the firm value.

**Keywords:** Ownership-Retention, Firm Value, Initial Public Offering, IPO.

*Corresponding author. *Email address:* ernie.hendrawaty@feb.unila.ac.id

## INTRODUCTION

A company to develop its business must have a decision to increase capital, either by borrowing money or issuing shares in the capital market. The capital market is often used as alternative funding for companies with relatively low costs than debt. The first public offering transaction occurs in the primary market, and this activity is called the initial public offering or IPO (Widarjo, 2011).

The general objective is to develop its business, provide maximum prosperity to its shareholders, and optimize its value. The company's value is determined by the demand and supply of the shares concerned in the stock market (Faza and Hidayah, 2014). Firm value can be proxied by Tobin's Q ratio. Tobin's Q is an indicator to measure the company's performance, especially the value, which shows a management performance in managing company assets (Aida and Rahmawati, 2015). Firm value can be said to have a good performance if the average value of Tobin's Q ratio is more than one, and vice versa if the average value of Tobin's Q is less than one, then the firm value can be said to have a bad performance.

Ownership retention is the percentage of the old owner's shares that the old owners still retain after the company made an initial public offering (Widarjo, 2010). Initial public offerings have information that is not symmetric between the old owners of the company and shareholders. This imbalance of information can be minimized, so the old owner must convey a signal about the company's prospects to be offered to shareholders. The signal conveyed by the old owner will provide information to shareholders to find out the company's prospects in the future. According to Fan (2007), ownership retention can be measured by the number of new shares issued by the previous owner divided by the total number of shares issued after the IPO. Analyzing a problem in research can be easier by using control variables. The control variables used in this study were intellectual capital, leverage, and growth.

Intellectual Capital is all knowledge assets that are divided into stakeholder resources (relations stakeholder and human resources) and structural resources (physical infrastructure and virtual infrastructure) that contribute significantly to improving the competitive position by adding value to interest parties (Marr and Schiuma, 2004). Intellectual capital can be measured by the Value Added Intellectual Coefficient (VAIC) (Pulic, in Sayyidah and Saifi 2017). According to Sayyidah and Saifi, intellectual capital can be said well if the company can develop the ability to motivate their employees in order to make them innovative, increase productivity, and has a system also structure that can support the company for maintaining and even increasing the profitability and value of the company.

According to Hasibuan, Dzulkirom, and Endang (2016), company funds come from internal and external funds. Internal funds are sources of funds that originate from the company, such as retained earnings and depreciation, while external funds come from outside the company that obtained from suppliers, such as bank loans (loans) or leverage, securities (bonds), issuance of new shares, suppliers, creditors, and others. Leverage is the company's ability to meet its financial obligations both in the short and long term or measure the extent to which the company is financed with debt (Novari and Putu, 2016). Leverage can be measured using the Debt-to-Equity Ratio (DER). Debt to Equity Ratio (DER) compares the total debt owned by the company to its own capital.

According to Sari and Abudanti (2015), large companies are more in demand than small companies, so that company's growth greatly affects the company's value. Furthermore, to rapid growth in managing growth, companies must have operational control, emphasizing cost control. Therefore, its faster growth can reflect the significant need for funds to expand its business and increase its desire to retain profits.

This research was conducted based on the inconsistency of the result from the previous studies, so further research is needed. Therefore, the above research is used as the basis by the author to research with the title " Ownership Retention and The Value Of Initial Public Offering (IPO) Firms In 2013-2016".

## LITERATURE STUDY

### Signaling Theory

Signaling theory indicates that the company will try to show the signal in positive information to potential investors through disclosure in the financial statements (Miller and Whiting 2005). The signal theory states how a company should convey information signals obtained and valuable to investors to assess companies with good performance. The company's annual report is crucial information and can influence shareholders in decision-making. Signal theory starts from the assumption that each interested party does not get the same information. Unbalanced information about the company's prospects occurs between prospective shareholders and the company's former owners when conducting an initial public offering of shares in the capital market. The company owner certainly has much better information about the company's prospects than potential investors. Actions that the old owner of the company will take to communicate information to potential investors are called signals. A positive signal from the company can be expected to get a positive response from the market and provide competitive profits for the company and benefit investors.

## METHODOLOGY

This correlational research uses secondary data from the Indonesia Stock Exchange (IDX) database. The variables were from the Indonesian IPO's annual financial statements and prospectus reports in 2013-2016. The number of companies was 89, while a number of samples were 28 companies according to predetermined criteria The dependent variable is firm value. The firm value is the shareholders' understanding of the company's level of success in managing resources, as seen in the company's share price. So, if the stock price is high, the company's value will be higher, and vice versa. Conversely, if the stock price is low, the company's value will be lower. Firm value is defined as market value because the company's value can provide maximum benefits for shareholders if the company's share price increases (Nurlela and Islahuddin, 2008). To measure the firm value, we use Tobin's Q. According to Lastanti (2004), Tobin's Q can be calculated using the following formula:

$$Q = (EMV+D) / (EBV+D)$$

Description:
Tobin's Q     = Firm value
EMV     = Market equity value Equity Market Value closing price x number of shares outstanding
D     = Book value of total debt
EBV     = Book value of equity Equity Book Value

The primary independent variable is ownership-retention. The ownership-retention is the proportion of shares retained by the company after the IPO. Ownership-retention is the number of shares retained by the first owner of the shares that are still maintained until the company goes public, grouped in a percentage format. Ownership-retention is measured by the number of new shares issued after the previous owner divided by the total number of shares issued after the IPO (Fan Qintao, 2007), which can be formulated as follows:

$$\text{Ownership-Retention} = \frac{(N\ before - N\ secondary)}{N\ after}$$

Description:
N before     = Number of shares outstanding before the IPO
N secondary     = Number of shares issued during the IPO
N after     = Number of shares issued after the IPO

The other primary variable is intellectual capita. It can be interpreted as the distance between the value of the company and the cost of returning assets to company assets. Intellectual capital can be divided into three categories, namely knowledge related to employees (human capital), knowledge related to company partners (customer capital), and knowledge related only to companies (structural capital). Intellectual capital in this study is measured as follows:
a.    Value-added (VA), namely the difference between output and input.

$$VA = OUT - IN$$

Description:
Output OUT = Total sales and other income.
Input IN = Expenses and costs other than employee expenses

b.    Value-added Capital Employed VACA, showing the contribution made by each unit of CE to the value-added organizations.

$$VACA = VA/CE$$

Description:
Value-added VA = Difference between output and input
Capital Employed CE = Funds available equity
c.    Value-added Human Capital VAHU shows the contribution made by every rupiah invested in HC to the value-added organizations.

$$VAHU = VA/HC$$

Description:
Value added VA     = Difference between output and input
Human capital HC     = Employee expense

d. Structural Capital Value-added STVA measures the amount of SC needed to generate 1 rupiah from VA and is an indication of the success of SC in value creation.

$$STVA = SC/VA$$

Description:
Structural Capital SC = Difference between value added and human capital
Value added VA = The difference between output and input
Human Capital HC = Employee expenses

e. Value-added Intellectual Coefficient VAIC, indicating the intellectual ability of the organization, which is calculated by the formula:

$$VAIC = VACA + VAHU + STVA$$

Statistical model of research to test the effect of ownership-retention and intelectual capital on the firm value is as follows:

$$Y = \alpha + \beta_1 X_1 \beta_1 X_1 + \beta_2 X_2 \beta_2 X_2 + \beta_3 X_3 \beta_3 X_3 + \beta_4 X_4 \beta_4 X_4 + \varepsilon$$

Description:
Y = Value Company
α = Constant
X1 = Ownership Retention
X2 = Intellectual Capital
X3 = Leverage
X4 = Growth
β1, β2, β3, β4 = Regression coefficient (the value increases or decreases)
ε = Error Term

## RESULT AND DISCUSSION

Descriptive statistics on each variable can be seen from Table 1 as follows:

**Table 1.**
Descriptive
Statistics

| | Firm Value (Y) | Intellectual Capital (X1) | Ownership Retention (X2) | Leverage (X3) | Growth (X4) |
|---|---|---|---|---|---|
| Mean | 1.91392 | 2.61642 | 0.53928 | 0.75535 | 0.69250 |
| Median | 1.42500 | 2.75000 | 0.53500 | 0.61500 | 0.45000 |
| Maximum | 4.50000 | 6.93000 | 0.93000 | 2.53000 | 2.52000 |
| Minimum | 0.21000 | -2.74000 | 0.05000 | 0.01000 | 0.30000 |
| Std. Deviation | 1.13232 | 2.44960 | 0.21874 | 0.61156 | 0.67899 |
| Observation | 28 | 28 | 28 | 28 | 28 |

Table 1 shows that the lowest firm value is 0.21 from Mega Manunggal Property Tbk (MMLP), which means that the company performance was poor because the company's value is less than 1. So, it indicates that the company cannot maximize the market value. In this study, the maximum value was found in the Siloam International Hospitals Tbk (SILO) company, which was 4.50, meaning that this value indicated that the SILO company value was valued at four times greater than its book value. The mean value of the variable is 1.91. Therefore, the mean value above shows that the sample company has a higher market value than its book value.

The ownership-retention (X1) variable shows that the ownership-retention of Blue Bird Tbk (BIRD) is the high have est, which means that the entrepreneur still maintains the company shares and has better information about the company. The minimum value is 0.05 from Bintang Oto Global Tbk (BOGA), which means that the company does not maintain the shares. The mean value of ownership retention is 0.53, which means that companies in Indonesia were likely to maintain share ownership.

The intellectual capital (X2) variable shows a minimum value of -2.74 from Siloam International Hospitals Tbk (SILO) company. The company is too small to provide information about its intangible assets, while intellectual capital must provide information about its intangible assets because it can affect its value. The mean value of the intellectual capital (X1) variable is 2.61. The mean value is good if the value is above 2.5, or it can be categorized as bad companies (Sunarsih and Mendra, 2012).

The leverage (X3) variable shows the maximum value is 2.53 originated from Dharma Satya Nusantara Tbk (DSNG), which means the company has more debt or relies more on debt. The minimum value is 0.01means that the most negligible total assets are financed by debt. The mean value is 0.75, which means that the total assets financed by the company's debt are still relatively low and means that the company's total debt is smaller than its total assets so that the company's financial condition in this study is still relatively good.

The growth (X4) variable shows that Graha Layar Prima Tbk (BLTZ) has a value of 0.03, which means that the company is low growth because of the increasing uncontrollable costs. The maximum value is 2.52 were from Protech Mitra Perkasa (OASA). The mean value was 0.69 shows that, on average, the growth is still low.

The data of all the variables were estimated using the OLS model. The model tests the effect of ownership-retention, intellectual capital, leverage, and growth on the firm value.

**Table 2.**
Test of T Statistics

| Variable | Coefficient | t-Statistic | |
|---|---|---|---|
| C | 0.8193 | 1.0300 | |
| Ownership-retention ($X_1$) | 2.6328 | 2.6696 | ** |
| Intellectual Capital ($X_2$) | -0.1281 | -1.6571 | |
| Leverage ($X_3$) | -0.5272 | -1.6118 | |
| Growth ($X_4$) | 0.5895 | 1.7784 | * |
| Observations | 28 | 28 | |
| R-squared | 0.3661 | | |
| Sum squared resid | 21.942 | | |
| F-statistic | 3.3215 | | |
| Prob (F-statistic) | 0.0275 | | |
| Durbin Watson stat | 2.2937 | | |

Table 2 shows that the variable of ownership-retention has a probability value of 0.0137; therefore, the hypothesis is supported at the significance level of 5%. The study support that ownership retention positively affects the value of Indonesian IPO companies in 2013 - 2016. The intellectual capital variable shows a probability value of 0.1111, which means that intellectual capital does not affect on firm value of Indonesian IPO companies in 2013 - 2016. The controlling variables, the leverage, show a probability value of 0.1206 which means the leverage has no significant effect on firm value. Therefore, the role of leverage to increase the firms' value is not supported by this study. The other controlling variable, the growth, positively affects the value of Indonesian IPO firms for 2013 - 2016. So that, the hypothesis is supported in this study at the significance level of 10%.

Retaining parts of its equity is a signal from the entrepreneurs to convince the investors about the firm and pay the value of its shares because the entrepreneur has superior knowledge about the firm's future performance. However, this signal is costly for entrepreneurs since it prevents them from holding an entire portfolio and exposes them to firm-specific risk..

**CONCLUSION**

Based on the results, it can be concluded that this study supports the signaling theory. This signaling theory will show a signal in the form of positive information. A positive signal from the company is expected to get a positive response from the market because this can provide a higher value for the company. According to Rock (1986), informed investors know more information about the company's prospects for buying or investing in IPO shares if the expected market price exceeds the initial price, and is supported by a prospectus or information issued by the company at the time of going public that gives a positive signal. It is concluded that this occurs because investors see their own more. The company also considers leverage and growth as control variables to control the influence of the independent variable on the dependent variable, even though the role of leverage is not significant to increase the value.

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