

## INITIAL PUBLIC OFFERING: NEW EVIDENCE FROM INDONESIA

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### **Abstract**

The authority of capital market in Indonesia has been trying to increase the participation of investors and the number of listed firms to boost the economic growth. Recently, the number of listed firms have increased significantly. However, there are firms that are unable to show good financial performance, in fact several firms entered financial distress and delisting from the market. This essay uses newly listed firms between 2012 and 2019. This essay shows that there exists underpricing in the short term (1-3 days) and underperformance in the long term (1-3 years) after going public. This essay recommends that investors should take advantage the underpricing, but they must be smart in selecting newly listed stocks as some may suffer from credit risk and poor corporate governance.

**Keywords:** *go public, IPO, underpricing, underperformance*

### **Abstrak**

Otoritas pasar modal di Indonesia berusaha untuk meningkatkan partisipasi investor dan jumlah perusahaan yang terdaftar untuk mendorong pertumbuhan ekonomi. Baru-baru ini, jumlah perusahaan yang terdaftar telah meningkat secara signifikan. Namun, ada perusahaan yang tidak dapat menunjukkan kinerja keuangan yang baik, bahkan beberapa perusahaan memasuki kesulitan keuangan dan keluar dari pasar. Tulisan ini menggunakan perusahaan-perusahaan yang baru terdaftar antara 2012 dan 2019. Tulisan ini menunjukkan bahwa ada *underpricing* dalam jangka pendek (1-3 hari) dan berkinerja buruk dalam jangka panjang (1-3 tahun) setelah go public. Tulisan ini merekomendasikan bahwa investor harus mengambil keuntungan dari *underpricing*, tetapi mereka harus pintar dalam memilih saham yang baru terdaftar karena beberapa mungkin memiliki risiko kredit dan tata kelola perusahaan yang buruk.

**Kata Kunci:** *go public, IPO, underpricing, underperformance*

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## INTRODUCTION

Indonesia is the fourth most populous country in the world and the country with the largest gross domestic product (GDP) in the Southeast Asian region<sup>1</sup>, but Indonesia's capital market is still far behind compared to other large countries (such as the United States, China, India) both in market capitalization and listed firms. In fact, among Southeast Asia Countries, the number of listed firms is still below their counterparts, namely Singapore, Malaysia and Thailand. This is a serious concern for the capital market authorities because capital market has important role in transforming developing (emerging) countries to become developed countries (Levine & Zervos, 1998; Alfaro, et al., 2004).

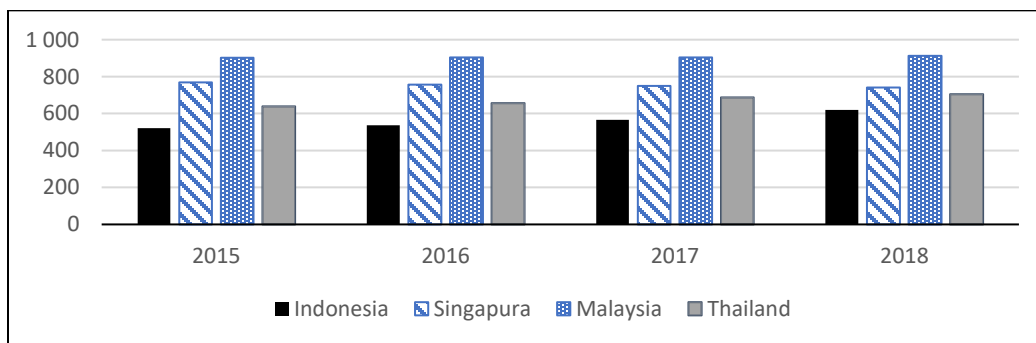


Figure 1. The Development of Listed Firms in ASEAN Countries<sup>2</sup>

In terms of the number of listed firms, the Indonesian capital market authorities have eased the conditions for firms going public, ranging from financial requirements and regulations with respect to corporate governance. As a result, firms that went public reached the highest levels in 2018 and 2019<sup>3</sup>.

Nevertheless, some firms that have just gone public showing a tendency of poor performance such as CPGT and DAJK that experience credit default. This condition is detrimental not only for investors but also for stock exchange authorities, who are trying to increase the number of listed firms as well as the number of investors.

<sup>1</sup> Organisation of Economic and Co-operation and Development, <http://www.oecd.org/indonesia/Active-with-Indonesia.pdf> accessed 12 August 2019

<sup>2</sup> <https://www.world-exchanges.org> accessed 2<sup>nd</sup> August 2019

<sup>3</sup> Fact Book IDX, [https://www.idx.co.id/media/4648/20181218\\_fb-2018.pdf](https://www.idx.co.id/media/4648/20181218_fb-2018.pdf) accessed 2<sup>nd</sup> August 2019

For this reason, it is necessary to examine the condition of firms that have just gone public in Indonesia. Previous studies (Ritter, 1991; Loughran & Ritter, 1995; Shen et al., 2014; Barry & Mihov, 2015) shows that there are two common phenomenon that are very likely to occur when after the IPO, namely underpricing of shares and underperformance in terms of shares and firm performance.

When a firm goes public, the firm and underwriter want to ensure that new shares issued can be fully absorbed by investors, while the investors need to know whether they should invest short-term or long-term. Figure 1 has shown that the capital market is still developing in Indonesia, which suggests that the phenomenon of underpricing may be more prevalent than any ASEAN countries. The underwriter, that provides advice and expertise to firms in the IPO process, may recommend lower IPO price to ensure issued stocks are sold out. IPO investors, who have limited information on the firms, are encouraged to obtain short-term gain. Existing shareholder (i.e. firm's top management) may think that underpricing is an opportunity cash in their current ownership. But, there is an ample evidence that IPO firms may suffer underperformance in the long term in Indonesia such as credit risk and low performance.

The essay consists of several parts. The first part is an introduction that explains the complexity, purpose, and benefits. The second section deals with conceptual review of going public, underpricing, and underperformance. The third and fourth parts are methodology and discussion. The last part is conclusion and recommendations.

## **Research Problems**

The underpricing phenomenon that occurs in the short term and underperformance for the long term is an inseparable phenomenon when companies go public. The company wants to ensure that the new shares issued can be fully absorbed by investors, while investors need to know whether they should invest in short-term or long-term. For this reason, this essay will try to answer the problem as follows: First, what is the phenomenon of underpricing on the day of listing on the IDX? Second, do companies that go public experience underperformance after three years after going public?

## **Research Objectives**

The purpose of this essay is twofold. First, this essay will try to analyze the underpricing phenomenon for three days after the listing date on the IDX. Second, this essay will analyze company performance three years after going public. Later, this essay can provide performance analysis in terms of stock performance, ROA, ROE, and debt to asset ratio.

## **Research Benefits**

This essay provides benefits for companies that will go public, investors, and the government, represented by the stock exchange authority. For companies that will go public, the company will get an overview of the company's short-term conditions and the challenges they will face in the long run. For investors, this essay provides opportunities and threats that may arise from investing in companies that are just going public. For the government, this essay will give some consideration to always monitor new companies going public, especially for the benefit of investors.

## **LITERATURE REVIEW**

### **Go Public**

The Cambridge Language Dictionary defines Go Public as an effort to make a company where everyone (parties) can invest in that company. The popular investment site Investopedia defines Going Public as a closed company business to conduct an initial public offering (IPO) so that company ownership can be traded publicly. Usually for Go Public, a closed company must issue new shares which will later be sold to the general public at the time of the IPO (Bodie et al., 2014). The Security Exchange Commission (SEC) in the United States explains that going public is an activity of selling shares to the public, through an IPO, to get additional capital. This definition shows two important points. First, going public can also be known as an IPO. Second, the public can have a stock of a company going public or also known as a public company.

A survey by Brau and Fawcett (2006) of 336 Finance directors showed that almost 60% agreed that Go Public was conducted to support the company's desire to expand. About 50% agree that Go Public is done to create the company's market value and enhance the company's reputation. While only 42.5% agree that Go Public can reduce capital costs and only 14.3% assume that going public occurs because debt costs are too expensive.

The process of going public (IPO) must involve an underwriter, who acts as an investment advisor and acts as a standby buyer. This means that if the number of shares planned to be sold to the public does not meet the expectations on the first day of listing on the stock exchange, the underwriter must be able to buy the shares. For this reason, usually only large financial institutions are able to be underwriters, some of which are JP Morgan, Deutsche Bank, City, Barclays (Brealey et al., 2017).

Go Public requirements are relatively the same for each country. Stock exchange authorities usually require the implementation of good corporate governance (good corporate governance) which includes periodic financial reporting both audited and unaudited, the presence of independent directors (commissioners), the establishment of audit committees, nomination and remuneration committees. Lately, Indonesian capital market authorities have relaxed the Go Public requirements to encourage the number of publicly listed companies in Indonesia starting from the total asset requirements, operating profit, company age, and number of shareholders.<sup>4</sup>

Empirical studies on IPOs show that there are two things that may occur at the time of an IPO, namely the phenomenon of underpricing on the day of recording and underperformance of the company after the IPO. Explanations for these two things will be explained in the next section.

### **The Phenomenon of Underpricing**

Underpricing is a condition where the initial stock price offered to the public is lower than the current or future market price (Brealey et al., 2017). This means that the initial price of shares is always cheaper on the first day of trading on the exchange.

The phenomenon of underpricing occurs both in developing countries and in developed countries. Loughran et al. (2014) showed that the country of Saudi Arabia was the country that

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<sup>4</sup> <https://www.idx.co.id/Portals/0/StaticData/Information/ForCompany/Panduan-Go-Public.pdf> accessed July 29<sup>th</sup> 2019

provided the highest rate of return in the world at 230-240% on the first trading day. Next was followed by Jordan and the PRC, each of which gave returns of almost 150% and 125%. Indonesia, on average, gives a rate of return in the range of 20-30% on the first day of listing on the exchange. This is due to the maximum increase limit of 40-70% for IPO shares.

According to Ritter (1998), the phenomenon of underpricing can be explained from various theories and hypotheses, which include *Winner's Curse Hypothesis*, *Market Feedback Hypothesis*, *Bandwagon Hypothesis*, *Monopsony Hypothesis*, *Lawsuit Avoidance Hypothesis*, *Signalling Theory*, *Ownership Dispersion Hypothesis*, *Prestigious Underwriter Hypothesis*, *Uncertainty Hypothesis*, *Prospect Theory* and *Agency Cost Theory*. The many theories and hypotheses involved show that the phenomenon of underpricing is a complex phenomenon which requires in-depth analysis.

In general, the phenomenon of underpricing benefits existing shareholders because they can enjoy long-term investment returns. Whereas for new shareholders, the phenomenon of underpricing is a very significant short-term benefit.

### **Underperformance Phenomenon – Long Term**

Underperformance phenomenon is a condition where IPO company stock performance is below market performance for 3 years after IPO. Ritter (1991) was the first to discover this phenomenon in the United States where his research used 1526 IPO events during the 1975-1984 period. The same phenomenon is also found in European countries (Gajewski & Gresse, 2006) and China (Chan et al., 2004).

Yong (2007) argues that there are 4 theoretical / hypothetical approaches that can explain the phenomenon of underperformance. First, The Agency Cost Hypothesis, where managers will use IPO funds to projects that have a negative NPV caused by differences in interests between managers and shareholders (Jensen, 1986). Second, Earning Management Hypothesis, where company managers will usually make projections of performance above the industry average before going public. But after the first year the company does not show performance in accordance with projections, investors will evaluate the value of the company's shares. Third, The Fads Hypothesis, where investors are too optimistic about the company's IPO (Shiller, 1990). Fourth, The Window of Opportunity Hypothesis, where managers will utilize high company value to issue

shares so as to reduce capital costs. However, empirical studies show that company performance will decline after the issuance of shares (Loughran & Ritter, 1995)

Unlike the phenomenon of underpricing, the phenomenon of underperformance has bad implications for investors who have just bought IPO shares. Investors must be smart in seeing the various fundamental conditions of a company before deciding to invest in shares of a company that has just gone public.

## **RESEARCH METHODOLOGY**

### **Data Collection**

This essay will use data from companies that went public since 2012 to September 2018. This essay will focus on non-financial companies because companies in the financial sector have different asset and funding characteristics than non-financial companies. Data on IPO companies were obtained from various sources such as: IDX sites, financial sites (Yahoo! Finance, Reuters Finance, IDNFinancial), and related company sites (prospectus and financial statements).

### **Method and Variables**

The method used is the event study approach, where company performance will be analyzed for 3 days after the recording date to see the underpricing phenomenon and for 3 years after the recording year to see the phenomenon of underperformance. Underpricing measurements use stock returns while underperformance measurements use stock returns, ROA, ROE, and debt ratios<sup>5</sup>.

The method used is event study approach, where company performance will be analyzed for 3 days after the recording date to see the underpricing phenomenon and for 3 years after the recording year to see the phenomenon of underperformance. Measurement of underpricing is done by looking at stock returns on the first day (day + 1), the second day (day + 2), and the third day (day + 3). While the measurement of underperformance uses Accounting variables (ROA and ROE) and stock performance (return) for the first year (year + 1), second year (year + 2) and third

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<sup>5</sup> ROA = net income divided by total asset; ROE = net income divided by total equity; Debt ratio = total debt divided by total asset.

year (year + 3). In addition, this essay will also look at credit risk for the first three years after going public as represented by the debt ratio.

### Analysis Technique

Most of the analysis used is description analysis. Several variables will be conducted t-test to analyze the phenomenon of company underperformance three years after the IPO. The t-test allows the writer to decide whether the company's performance is better or worse by going public<sup>6</sup>.

## RESULTS AND DISCUSSION

### Overview of Go Public Companies in Indonesia

Figure 2 shows the development of companies going public in Indonesia, where the number of IPO companies increased sharply in 2018. Figure 2 shows several things. First, the success of the capital market authority to increase the number of listed companies in Indonesia. Second, this development shows that many business owners are aware of the capital market as a source of funding. Third, the total IPO funds obtained were relatively stagnant despite the large number of companies going public. That is, on average the IPO funds obtained in the 2017 and 2018 periods are relatively smaller.

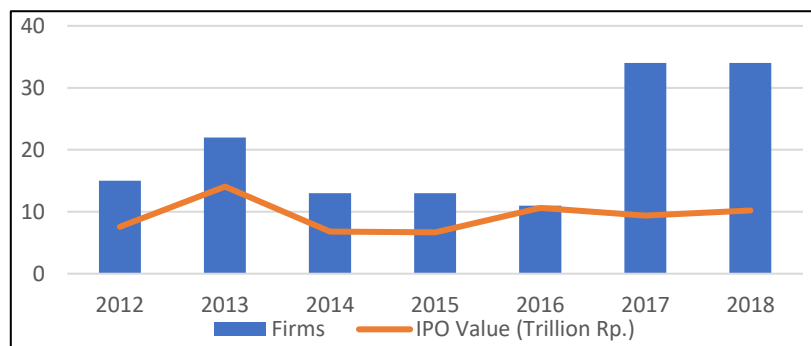


Figure 2. Development of Go-Public Companies in Indonesia<sup>7</sup>

<sup>6</sup> T-test enables authors to analyse the difference of firm performance before and after IPO. It is necessary to conduct regression analysis in the future studies to examine factors that influence the phenomenon.

<sup>7</sup> Financial sectors companies excluded (banks, insurance, etc.)



**Underpricing Phenomenon in Indonesia**

Table 1 shows the phenomenon of underpricing in Indonesia for the period 2012-2018. On average, the rate of return to the offer price increased by 28.62% on the first day, then increased by 42.38% on the second day and increased by 53% on the third day. Something interesting is that there is a tendency for the level of underpricing to be increasing lately, especially in 2017 and 2018 both on the first, second and third day. If related to the number of companies that went public in 2017 and 2018, there is a possibility of the number of companies and the related underpricing phenomenon. Seeing a fairly high short-term return may further encourage many closed companies to become listed companies. From an investor’s perspective, an IPO is a very profitable opportunity for a very short period of time. Investors who buy IPO shares are good to sell on the third day because the rate of return obtained is greater than the first year and second year. However, it is not easy for prospective investors to get IPO shares, given that IPO shares tend to be over-subscribed, so underwriters must apply allotment. Investors who plan to buy on the secondary market (stock exchange), should also not be too high expectations because IPO shares usually have a small trading volume because there are not many shareholders who want to release their shares on the first day. In other words, investors who own IPO shares are very lucky investors for a very short period of time.

Table 1. Underpricing phenomenon in Indonesia<sup>8</sup>

<b>Year</b>	<b>day+1</b>	<b>day+2</b>	<b>day+3</b>
<b>2012</b>	6.31%	7.40%	10.99%
<b>2013</b>	3.25%	8.27%	6.57%
<b>2014</b>	19.66%	26.22%	26.82%
<b>2015</b>	26.40%	26.67%	30.68%
<b>2016</b>	18.91%	25.39%	27.80%
<b>2017</b>	38.22%	59.52%	74.26%
<b>2018<sup>9</sup></b>	51.54%	78.54%	104.65%
<b>2012-2018</b>	28.62%	42.38%	53.27%

<sup>8</sup> Source: author’s data

<sup>9</sup> Until September 2018

**Underperformance phenomenon after IPO**

This essay will see if there is a decline in the performance of companies that go public after three years. This essay uses two performance measures, namely ROA (return on assets) and ROE (return on equity). Table 2 Panel A and Panel B show that companies that went public did not perform well in the 3 years after the IPO. Even the performance of companies going public will be even worse in the third year.

Another interesting thing is the tendency of companies that went public in the last 2-3 years to have worse performance than companies that went public 5-7 years ago. This might be due to the number of companies that went public on the development board given the lighter performance requirements than the entry requirements on the main board.

Table 2 Panel C shows credit risk for companies that go public, where credit risk is proxy by the ratio of debt to assets. In general, there is a tendency for the debt ratio to decrease 3 years after going public. This might seem reasonable considering that by conducting an IPO, the company will increase the amount of equity which will ultimately reduce the proportion of debt as a source of funding.

Table 2. The Performance of Newly Listed Firms after 3 Years

<b>Panel A. Return on Asset (ROA)</b>								
<b>Year</b>	<b>IPO</b>		<b>year+1</b>		<b>year+2</b>		<b>year+3</b>	
	<b>Obs.</b>	<b>%</b>	<b>Obs.</b>	<b>%</b>	<b>Obs.</b>	<b>%</b>	<b>Obs.</b>	<b>%</b>
<b>2012</b>	14	9.36	15	5.99	15	4.28	14	2.84
<b>2013</b>	17	9.78	22	4.93	21	2.59	21	3.21
<b>2014</b>	11	13.87	11	5.84	10	6.36	9	10.11
<b>2015</b>	11	8.29	12	5.91	12	5.81	12	3.98
<b>2016</b>	11	7.07	11	4.87	11	3.61	.	.
<b>2017</b>	33	4.98	33	4.51	.	.	.	.

<b>Panel B. Return on Asset (ROE)</b>								
<b>Year</b>	<b>IPO</b>		<b>year+1</b>		<b>year+2</b>		<b>year+3</b>	
	<b>Obs.</b>	<b>%</b>	<b>Obs.</b>	<b>%</b>	<b>Obs.</b>	<b>%</b>	<b>Obs.</b>	<b>%</b>
<b>2012</b>	14	31.83	15	10.53	15	10.53	14	1.80
<b>2013</b>	17	29.88	22	5.09	21	5.086	21	5.62
<b>2014</b>	11	22.01	10	7.89	11	-3.2	9	15.05
<b>2015</b>	11	16.38	12	7.70	12	9.55	12	6.35

<b>2016</b>	11	13.52	11	8.80	11	5.52	.	.
<b>2017</b>	33	12.50	32	7.42	.	.	.	.
<b>Panel C. Debt to Asset Ratio</b>								
<b>Year</b>	<b>IPO</b>		<b>year+1</b>		<b>year+2</b>		<b>year+3</b>	
	<b>Obs.</b>	<b>%</b>	<b>Obs.</b>	<b>%</b>	<b>Obs.</b>	<b>%</b>	<b>Obs.</b>	<b>%</b>
<b>2012</b>	14	67.24	15	0.76	15	0.77	14	0.66
<b>2013</b>	17	61.64	22	0.45	21	0.48	21	0.47
<b>2014</b>	11	72.82	11	0.42	10	0.35	9	0.36
<b>2015</b>	11	49.28	12	0.34	12	0.42	12	0.41
<b>2016</b>	11	50.94	11	0.42	11	0.89	.	.
<b>2017</b>	33	53.74	33	0.42	.	.	.	.

Table 2 Panel C also shows the high debt ratio in the 2012-2014 period. This shows that there are indications that companies are going public to balance the funding structure of the company. This condition is consistent with the concept of the Pecking-Order Hypothesis in corporate funding, where the company will mainly use internal funding (retained earnings) as the main source of funding, followed by funding through debt, and then issuing equity (shares) as the most recent source of funding. Various financial performance during and after going public can be seen in Table 2.

To see if there is a statistical difference, a formal statistical test is needed, namely the t-test. This test is performed on the Stata software. Table 3 shows that there was a statistically significant decrease in performance (ROA and ROE) at the level of 1% and 5%. Furthermore, there was a decrease in credit risk for companies that went public, although the t-test showed no difference between credit risk before and two years after the IPO, where the average difference was not statistically significant.

Table 3. Results of t-test

<b>Performance Measures</b>	<b>Year</b>	<b>N</b>	<b>Performance at IPO</b>	<b>Performance year+n</b>
<b>ROA</b>	Year+1	102	8.15	5.55**
	Year+2	68	9.82	4.55***
	Year+3	54	10.51	4.94***
<b>ROE</b>	Year+1	101	20.47	9.23***
	Year+2	69	23.76	5.59***
	Year+3	54	26.33	7.03***
<b>Debt Ratio</b>	Year+1	97	58.41	47.01***
	Year+2	63	60.50	59.34

Year+3      50                                      62.32                                      48.79\*\*

\* Significant at the level 10%, \*\* significant at the level 5%, \*\*\* significant at the level 1%

The next analysis is to look at the performance of company stocks that go public. Table 3 shows some statistical criteria of stock performance after 3 years. It can be seen that the return data is not in the normal distribution, where there are several companies that have increased more than 10 times, such as shares with the code SAME, GUEST, FIRE. This makes the average person seem very big. However, when viewed from other statistical values, the median of actual stock returns is at the level of 17.09%, 2.85%, and -1.48% for the first, second, and third years, respectively. This decline in stock performance is consistent with the underperformance phenomenon found by previous studies.

Furthermore, the quartile-1 and quartile-3 statistics show that there are some have very good and very poor performance (Table 4). Some stocks are classified as very bad, such as TOBA, DYAN, DAJK, ECII and MDKI after going public. In addition, a number of shares have also been suspended or even delisted from IDX such as DAJK and CPGT.

Table 4. Three-Year Stock Performance after Going Public

<b>Statistics</b>	<b>Year+1</b>	<b>Year+2</b>	<b>Year+3</b>
<b>Mean</b>	136.33%	81.96%	79.35%
<b>Median</b>	17.09%	2.85%	-1.48%
<b>Quartile-1</b>	-13.33%	-40.81%	-43.64%
<b>Quartile-3</b>	114.06%	93.91%	94.74%
<b>Observations</b>	105	72	60

## Discussion

This essay has shown that the phenomenon of underpricing in shares of companies that go public also occurs in Indonesia, where the underpricing condition has become even greater over the past 2-3 years. There are many theories and hypotheses that can cause this condition. One of them is to guarantee that shares issued by companies can be absorbed in the market so as to reduce the risk of underwriters. In addition, due to the large amount of underpricing in the past three years, we

argue that this might be an attempt to attract companies to go public where the bid price is set far below the market price.

Underpricing is an opportunity for investors to obtain high rates of return in a very short period of time, especially lately. The data shows that it is better for investors to hold 1-2 days after trading to get the maximum rate of return. Nevertheless, investors should anticipate the long-term performance of underpricing stocks as they tend to have poor performance (Bradley et al., 2006).

The next analysis is an analysis of 1-3 years underperformance of companies going public. Statistically, the company's performance, which is indicated by ROA and ROE, decreased three years after going public. Furthermore, it can be seen that credit risk also tends to fall. Even so, investors must still be able to choose a publicly traded company to invest because there are some shares that have to be delisted due to default problems such as CPGT<sup>10</sup>, DAJK<sup>11</sup>, and TAXI<sup>12</sup>.

There are several explanations for this finding. First, there is the possibility of management's inability to use the funds obtained to be used on projects that bring benefits for the firm. This argument is consistent with previous studies (Chemmanur & Paeglis, 2005; Le et al., 2013; Gounopoulos & Pham, 2018). This is an interesting issue, because the stock exchange authorities tend to put more emphasis on the independence of the board of commissioners and directors rather than their competence in good corporate governance (GCG). In other words, the approach used by the stock authorities to implement GCG tends to be based on the Agency Theory rather than the Resource Dependence Theory, where both directors and commissioners should not only be independent but also have to bring expertise, experience and network to the company.

Second, even if management does have good skills, the IPO funds obtained may be used for working capital needs or paying off debt rather than expanding. This has resulted in stagnant ROA and ROE and even tended to fall for three years after the IPO. However, a deeper analysis of the two explanations above.

Finally, stock performance shows that stocks have risen at a level that is extreme enough to make it difficult to interpret it if only looking at the average rate of return. For this reason, this essay uses median, quartile-1, and quartile-3 analysis. Median statistics show that stocks tend to

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<sup>10</sup> <https://nasional.kontan.co.id/news/proposal-pkpu-ditolak-citra-maharlika-pailit> accessed July 31<sup>st</sup>

<sup>11</sup> <https://www.cnbcindonesia.com/market/20180518084557-17-15466/pailit-emiten-kemasan-kertas-ini-delisting-dari-bursa> accessed July 31<sup>st</sup>

<sup>12</sup> <https://www.cnbcindonesia.com/market/20190625091048-17-80403/apa-kabar-saham-bakrie-telecom-dan-taksi-express> accessed July 31<sup>st</sup>

underperform for three years after the IPO. This is consistent with the fundamental results obtained in the previous analysis.

One explanation of the phenomenon of underperformance is the possibility that the company is too optimistic to project its financial performance after going public. This is reasonable because the company wants to attract potential investors to buy shares of the company. Over time, investors begin to evaluate their position and likely the company's fundamentals are not in line with investor expectations.

## **CONCLUSION AND RECOMMENDATIONS**

### **Conclusion**

This essay aims to analyze the common phenomenon in companies that go public, namely underpricing and underperformance. This essay shows that the efforts of the capital market authorities in Indonesia have succeeded in increasing the number of companies listed on the IDX, especially in the last 2-3 years. Data shows that although the number of companies increased sharply, the funds collected from the IPO were relatively stagnant. This might be due to the number of small companies that want to go public.

The number of companies that went public could be caused by the phenomenon of underpricing, where the shareholders of an IPO company would get a return on new shares issued an average of 28.62%, 42.38%, and 53.27% for the first, second and third years, respectively. From the investor side, this condition is a very profitable opportunity for a very short investment period.

Underperformance analysis shows that most companies experience a decline in performance three years after going public. This essay has the argument that most directors and commissioners do not have the competence to use the IPO funds obtained. Another argument is that there is a possibility that the funds obtained will be used to pay off debt so that the company's performance stagnates for 3 years after the IPO.

## **Recommendations**

This essay provides several recommendations to various parties. For owners (shareholders) of a closed company, going public is a means to get fresh funds to support the development and sustainability of the company. At present, the capital market authority has provided adequate facilities and eased some requirements. Nevertheless, it is better for companies to prepare adequate human resources in order to be able to use IPO funds optimally.

For investors, buying shares that have just go public is a very profitable opportunity for a very short term. If to invest for the long term (3 years), you should examine carefully the fundamentals of the company and corporate governance because there is a tendency for companies to be too optimistic in making financial projections.

For the government, as the stock exchange authority, it is necessary to ensure that those who will become directors and commissioners of companies that have just go public have sufficient competence. Exchange authorities should not only rely on the independence of directors or commissioners to ensure the sustainability of the company. Some things that can be done are appealing (requiring) one / two commissioners to have licenses such as CPA, CFA, and FRM. In the long term, the authority may consider conducting a fit and proper test for candidates for directors / independent candidates the same way BI does for bank directors / commissioners in Indonesia.

For academics, the future studies should address some deficiencies in this study. Firstly, it is good to conduct regression analysis to examine more factors in the phenomenon of underpricing and underperformance in IPO. Secondly, governance, particularly structure of boards, should be addressed in the next studies because the rise and fall of an organization (firm) depends decision taken in the boardroom.

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