What factors affecting firm value during IPOs? A study at the Indonesia Stock Exchange

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ABSTRACT

Purpose — *The objective of this study is to examine the factors that impact the value of a company over both the short and long term. These factors include variables such as the company's size, the reputation of the underwriter and auditor, the industry sector in which it operates, and the number of shares outstanding during the initial public offering (IPO).*

Method — *In this study, a quantitative causality approach with analytical properties is employed as the method of analysis. The population under investigation consists of companies that conducted initial public offerings (IPOs) between the years 2020 and 2022. A sample size of 113 companies is selected using a specific sampling approach for research purposes. To analyze the data, a binary logistic regression model is applied, along with the use of statistical tools.*

Result — *The conducted research has yielded several findings. Firstly, it indicates that the variable of company size does not have a significant impact. Secondly, the variable of underwriter reputation also does not have a significant effect. Thirdly, the variable of auditor reputation does not significantly influence firm value. Fourthly, the stock variable does not significantly affect firm value. Lastly, the research highlights that the industry sector variable has a significant impact on firm value.*

Contribution — *The research is expected to contribute to the academic field and benefit capital market players by addressing the factors that should be considered when making investment decisions in the capital market.*

Keywords: *underwriter reputation, auditor reputation, industry sector, microeconomics, firm value*
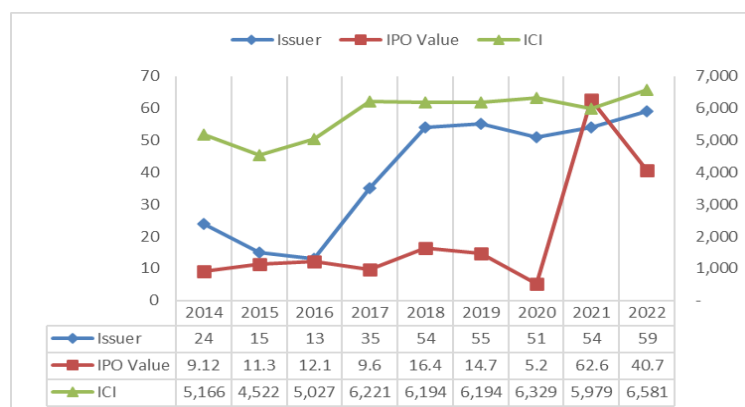
INTRODUCTION

Corporate companies can secure funding for expansion, recovery, and ongoing operational expenses without relying on bank loans (Aini, 2013) by opting for an Initial Public Offering (IPO) and getting their companies listed on the Indonesian stock exchange. By doing so, they can mitigate the risks associated with high and volatile bank interest rates, as the capital market allows them to raise funds from the public. This is supported by the observed trend of an increasing number of corporate companies listing on the Indonesian stock exchange over the past decade.

Not only has there been a surge in corporate IPOs on the stock exchange, but this phenomenon has also been accompanied by a significant increase in new investors in the capital market in recent years. According to Pahlevi (2022), there was a notable rise of 56.2% or approximately 3.88 million new investors at the onset of the pandemic in 2020. In 2021, this figure reached 92%, equivalent to around 6.2 million new investors, marking the highest record in the history of the Indonesian capital market. Furthermore, in 2022, there was an increase of 37.2% or approximately 2.63 million new investors, making it a significant achievement within the last three years during the COVID-19 pandemic in Indonesia. This substantial growth can be attributed to the restrictions imposed during the pandemic, which necessitated remote work and impacted small businesses, leading individuals to seek alternative means of survival (Syofian & Sebrina, 2021). As per Ramadana (2018), Indonesian Law No. 8 of 1995, which pertains to the capital market, elucidates that public offerings are activities conducted by issuers to sell securities to the public. These securities include commercial paper, debt acknowledgment letters, proof of debt, bonds, shares, equalization units, futures contracts on securities, and collective investment contracts.

Figure 1. IPO progress, IPO value, and JCI

	2014	2015	2016	2017	2018	2019	2020	2021	2022
Issuer	24	15	13	35	54	55	51	54	59
IPO Value	9.12	11.3	12.1	9.6	16.4	14.7	5.2	62.6	40.7
ICI	5,166	4,522	5,027	6,221	6,194	6,194	6,329	5,979	6,581

Source: Indonesia Stock Exchange (2023)

Figure 1 above illustrates the developmental trend of IPOs from 2014 to 2022, demonstrating relatively stable growth without significant fluctuations. The data indicates that the lowest number of IPO issuers was recorded in 2016, with 13 companies raising funds of 12.1 trillion. Conversely, the highest number of issuers was observed in 2022, with 59 companies listing on the stock exchange and raising funds totaling 40.7 trillion. Interestingly, the trend of IPO funds does not consistently align with the number of issuers. For instance, in 2016, although there were only 13 IPO issuers, the funds raised were notably higher at 12.1 trillion compared to previous years. It is important to note that the growth of IPO issuers and funds raised does not necessarily correlate with the movement of the Jakarta Composite Index (JCI) due to variations in their underlying processes and activities.

Figure 2. Growth of local investors during 2017-2022
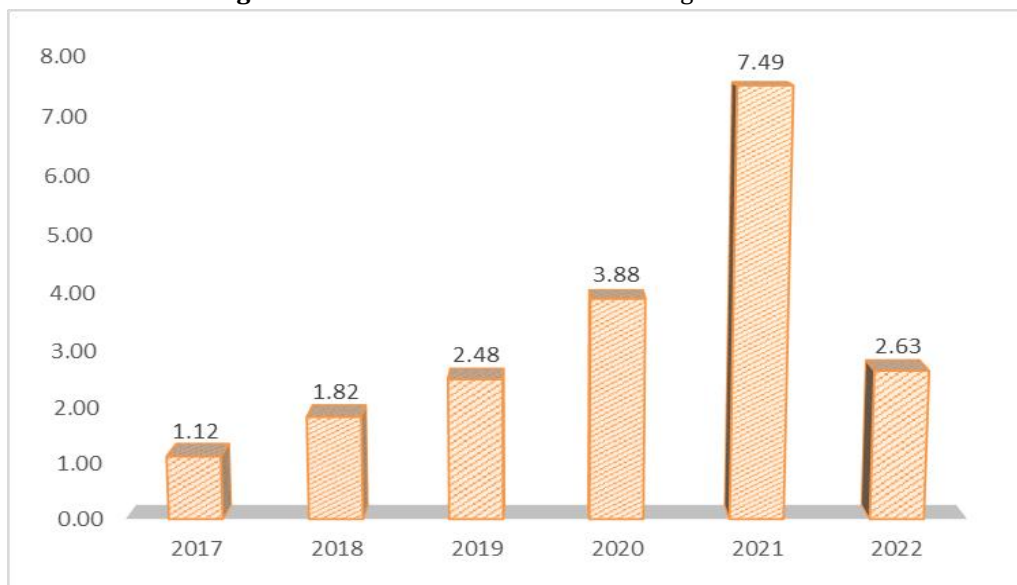
Source: Pahlevi (2022)

Figure 2 above depicts the upward trend of local investors in the capital market over the past six years. In 2017, the number of local investors grew by 1.12 million, followed by a growth of approximately 62.5% or 1.82 million in 2018, and around 36.2% or 2.48 million in 2019. The year 2020 witnessed a significant increase of 56.4%, reaching 3.88 million new local investors, which can be attributed to changes in community activity patterns during the early stages of the COVID-19 pandemic in Indonesia. The growth continued to accelerate in 2021, marking the largest increase throughout the study period, with a surge of 93% or 7.49 million new investors in the capital market. However, in 2022, the growth rate declined compared to the previous year, with approximately 2.63

million new investors or an increase of around 36.6%. Pahlevi (2022) highlights that this growth phenomenon is predominantly driven by millennials, indicating a rising interest and awareness of the capital market among a wider audience. Consequently, as the capital market gains popularity, it is essential for local investors to exercise caution and make informed investment decisions due to the presence of unscrupulous actors who exploit the market for their own interests.

Some previous studies referenced in this study include research by Aini (2013), which examined variables such as company size, underwriter reputation, auditor reputation, and had a sample research period of 2007-2011. The data analysis technique used was multiple linear regression. Another study by Ramadana (2018) explored company size and underwriter reputation as variables, with a sample research period of 2007-2013, also using multiple linear regression for data analysis. Morina & Rahim (2020) conducted research on the same variables: company size, underwriter reputation, and auditor reputation, with a sample research period of 2016-2018, and employed multiple linear regression for data analysis. Ayuwardani & Isroah (2018) focused on the underwriter's reputation as the variable, with a sample research period of 2011-2015, and utilized multiple linear regression for data analysis. Jayanarendra & Wiagustini (2019) examined company size and underwriter reputation as variables, with a research sample period of 2013-2017, employing multiple linear regression for data analysis. Syofian & Sebrina (2021) conducted research on company size, underwriter reputation, and auditor reputation, with a research sample period of 2014-2018, and used multiple linear regression for data analysis. Permatasari & Kusumah (2017) investigated company size, underwriter reputation, and shares outstanding as variables, with a research sample period of 2008-2015, and employed multiple linear regression for data analysis. Ningrum & Widiastuti (2017) explored company size and underwriter reputation as variables, with a research sample period of 2012-2016, and utilized multiple linear regression for data analysis. Lastly, Purwanti (2017) examined company size and shares outstanding as variables, with data analysis conducted using multiple linear regression.

From the description of previous research, this study presents several novelties. Firstly, it includes the industrial sector variable and the number of shares outstanding at IPO, although there are similarities with previous studies in terms of percentage ownership. Secondly, this study employs logistic regression as the research method. Lastly, the research sample period covers the years 2020-2022, which represents the latest data available.

The aim of this study is to analyze the factors influencing the share price of IPO companies. The results of this study can serve as academic references and

empirical evidence for novice investors, assisting them in addressing and minimizing investment risks in the capital market. With the capital market becoming increasingly volatile, it is important for capital market participants and novice investors to react swiftly and cautiously to these conditions.

METHOD

This research falls under the category of causal research, as defined by Sugiyono (2017), which aims to test the relationships and hypotheses among more than two variables. The independent variables in this study include company size, underwriter reputation, auditor reputation, industrial sector, and outstanding shares, while the dependent variable is the company value. The research methodology employed is quantitative causal research with applied analytics. The quantitative approach is rooted in the positivist philosophy and is used to evaluate specific research objectives and samples.

Population and sample

The population for this study consists of companies that underwent an Initial Public Offering (IPO) on the Indonesia Stock Exchange between 2020 and 2022. The sample for the study was selected using a purposive sampling method, taking into account the specific requirements necessary for the research. The sample includes companies that provide annual financial report data, information on company size, underwriter and auditor reputation, the type and industry sector of the companies conducting IPOs, as well as details on the outstanding shares issued on the Indonesia Stock Exchange. Additionally, periodic information related to the value of the sampled companies was included for the research.

Type and data sources

The information and data for this study were collected using the documentation method, primarily relying on secondary sources. These sources included published information and data in the form of financial reports, tabular forms, and website publications from various sources such as the Indonesia Stock Exchange (IDX), KSEI (Central Securities Depository), KPEI (Indonesia Clearing House), as well as other relevant sources such as internet magazines and articles related to the research theme. This approach allowed for the collection of comprehensive and up-to-date information necessary for the study.

Variable and measurement

To ensure the success of the research process, this study employed specific measurement methods and scales for each variable.

<p align="center">Table 1. Operational variables</p>

Variables	Measurement	Scale
Firm Value (Y)	The proposed enterprise value/share price is categorized as follows: Value 1 for company value above IPO price Value 0 for company value below IPO price	Ordinal
Firm Size (X1)	Based on market capital: It gives a 1 for tier 1 It gives number 2 for tier 2 It gives number 3 for tier 3	Ordinal
Underwriter Reputation (X2)	Measured based on the top 10 in the 20 most active brokerage houses monthly IDX based on the total trading frequency. Measurement is done by: 1. Giving number 1 for the top 10 2. Giving number 0 for non-top 10	Ordinal
Auditor Reputation (X3)	Auditors in KAP who have partnered with the Big Four will get a value of 1 and those who are not partnered with the Big Four will get a value of 0	Ordinal
Industry Sector (X4)	Based on the order of 11 sectors on the IDX	Interval
Shares Outstanding (X5)	Number of shares outstanding at IPO, excluding corporate actions	Nominal

<p align="right">Source: Processed by the authors (2023)</p>

Data analysis technique

The test method employed in this study was multivariate logistic regression analysis. As explained by Ghozali (2013), this regression model is appropriate when the dependent variable (Y) is categorical. Unlike other regression models, multivariate logistic regression does not require the independent variables to adhere to classical assumptions. Descriptive statistics, on the other hand, were utilized to provide information about the data, including measures such as minimum, maximum, mean, and standard deviation (Ghozali, 2013). Subsequently, the research hypotheses were tested using logistic regression analysis.

RESULT AND DISCUSSION

The results of the Omnibus Tests of Model Coefficients indicate that the model presented in Table 2 fits well. The Chi-square value obtained is 5.971, while the

critical Chi-square value from the table is 11.070. Since the Chi-square value obtained is less than the critical Chi-square value, it can be concluded that the research model, as assessed by the Omnibus Tests of Model Coefficients, is deemed fit and suitable to proceed to the next stage.

Table 2. Omnibus tests of model coefficients

Omnibus Tests of Model Coefficients		Chi-square	df	Sig.
Step 1	Step	5.971	5	.309
	Block	5.971	5	.309
	Model	5.971	5	.309

Source: Processed by the authors (2023)

Table 3. Model summary

Model summary			
Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	149.181ᵃ	.051	.269

a. Estimation terminated at iteration number 4 because parameter estimates changed by less than .001.

Source: Processed by the authors (2023)

From the summary model results presented in Table 3 above, the testing of the regression coefficient yielded a Nagelkerke R Square value of 0.269. This indicates that approximately 26.9% of the variance in the dependent variable, company value, can be explained by the independent variables Company Size, Underwriter Reputation, Auditor Reputation, Industry Sector, and Shares in Circulation. It is important to note that the remaining 73.1% of the variance is influenced by factors not examined in this study.

Table 4. Hosmer and Lemeshow test

Hosmer and Lemeshow test			
Step	Chi-square	df	Sig.
1	5.739	8	.676

Source: Processed by the authors, (2023)

Based on the fit model results presented in Table 4 above, the Chi-square value obtained is 5.739, while the critical Chi-square value from the table is 11.070. Since the Chi-square value obtained is less than the critical Chi-square value, it can be concluded that the research model is fit and suitable to proceed to the next stage.

Table 5. Variables in the equation

		B	S.E.	Wald	df	Sig.	Exp(B)
	Variables in the equation						
Step 1ᵃ	Firm Size	-.368	.524	.492	1	.483	.692
	Underwriter Reputation	-.346	.486	.505	1	.477	.708
	Auditor Reputation	-.251	.630	.158	1	.691	.778
	Industry Sector	-.154	.073	14.476	1	.034	.857
	Shares Outstanding	-.013	.226	.003	1	.954	.987
	Constant	2.523	5.904	.183	1	.669	12.462

a. Variable(s) entered on step 1: Firm Size, Undewriter Reputation Auditor Reputation, Industry Sector, Shares Outstanding.

Source: Processed by the authors (2023)

Based on the results of the Variables in the Equation analysis presented in Table 5, the following conclusions can be drawn:

Company Size: The company size variable projected by the Capital Market does not have a significant effect on firm value. This is evident from the binary logistic regression test results, where the coefficient is -0.368 and the wald value is 0.492, indicating that the sig value of 0.483 is greater than the significance level (alpha) of 0.05.

Underwriter Reputation: The underwriter reputation variable does not have a significant effect on firm value. The binary logistic regression test results show a coefficient of -0.346 and a wald value of 0.505, with a sig value of 0.477, which is greater than the significance level (alpha) of 0.05.

Auditor Reputation: The auditor reputation variable also does not have a significant effect on firm value. The binary logistic regression test results indicate a coefficient of -0.251 and a wald value of 0.158, with a sig value of 0.691, which is higher than the significance level (alpha) of 0.05.

Industrial Sector: The industrial sector variable has a significant effect on firm value. The binary logistic regression test results reveal a coefficient of -0.154 and a wald value of 14.476, with a sig value of 0.034, which is lower than the significance level (alpha) of 0.05.

Outstanding Shares: The outstanding shares variable does not have a significant effect on firm value. The binary logistic regression test results show a coefficient of -0.013 and a wald value of 0.003, with a sig value of 0.954, which is greater than the significance level (alpha) of 0.05.

Discussion

The effect of firm size on firm value

Based on the research findings, it is evident that the size of a company as perceived by the Capital Market does not have a significant impact on its value. The projection of company size by the capital market cannot always be used as a reliable indicator of whether the company's value or share price will be higher than the IPO price or prevent a decrease in its value. Similarly, if an IPO company operates in a relatively small capital market, it does not necessarily mean that its value or share price will drop below the initial offering price. Ross (2015) highlights how market sentiment does not always dictate investors' perceptions in the stock exchange.

The phenomenon observed during the research period aligns with Manurung's (2019) theory on asymmetric information, where the capital market was affected by national and global economic uncertainties due to the COVID-19 pandemic. Many companies exploited the capital market by seeking funding through IPOs. A large capital market poses significant risks for market players as it can strongly influence the Composite Stock Price Index (JCI), resulting in substantial entry and exit movements. Consequently, increasing the share price becomes challenging. Conversely, in a small capital market, larger market makers can easily manipulate the market, thereby diminishing the impact of a company's projected size on its value.

These findings corroborate previous research conducted by Ningrum & Widiastuti (2017), Morina & Rahim (2020), Purwanti (2017), Syofian & Sebrina (2021), and Aini (2013), which also concluded that the company size variable, as perceived by the capital market, does not exert a significant effect on its value.

The effect of underwriter reputation on firm value

Research findings indicate that the reputation of the underwriter does not significantly impact the value of the firm. While there are instances where the underwriter's reputation may suggest a higher share price for companies selling securities during an IPO, this association is not always guaranteed. This phenomenon is particularly observed in capital markets during times of economic uncertainty, such as the COVID-19 pandemic.

According to Handini and Astawinetu (2020), market participants, including market makers and investors, are quick to respond to changes in the capital market. Novice investors may believe that having a top underwriter associated with a company whose shares are being purchased during an IPO will result in a

substantial increase in share price. However, it is important to recognize that earning profits in the capital market is not as straightforward, and market makers do not provide funds solely based on this belief (Bebczuk & Bebczuk, 2003).

During periods of economic uncertainty, even if the underwriter is highly regarded, there is no assurance that the securities they sell will experience a significant rise in value. Therefore, the reputation of the underwriter does not affect the firm's value in uncertain economic conditions. These findings align with previous research conducted by Ningrum and Widiastuti (2017), Jayanarendra and Wiagustini (2019), and Aini (2013), which all conclude that the variable of underwriter reputation has no impact on firm value.

The effect of auditor reputation on firm value

Research findings indicate that the reputation of the auditor does not have a significant impact on the value of the firm. While auditors play a crucial role in creating and assessing financial statements, their reputation may hold prestige for stakeholders who prioritize quality and professionalism (Manurung, 2019). However, there have been significant changes in market participants, with many novice investors entering the stock exchange with minimal capital. For these individuals, the reputation of a company's financial auditors may not play a substantial role in their decision-making process. Therefore, the literacy regarding the quality of financial statements provided by reputable auditors is not a determining factor for novice investors. As a result, the reputation of auditors during the research period does not significantly affect the value of the company.

These findings align with previous research conducted by Syofian and Sebrina (2021) and Morina and Rahim (2020), which also conclude that the variable of auditor reputation does not influence firm value.

The effect of industry sector on firm value

The findings of the research indicate that the industrial sector has a significant impact on firm value. During the research period, the industrial sector garnered attention as the entire investment market faced uncertainty due to the COVID-19 pandemic. As a result, the industrial sector became a reference point for selecting IPO stocks and existing stocks. The health sector, in particular, gained popularity as it directly influenced companies' profit levels through sales, leading to an increase in share price and firm value. Additionally, sectors such as

energy and technology, which are fundamental global needs, presented opportunities for investors to acquire IPO shares in specific sectors. This also benefited companies in popular sectors, allowing them to issue shares on the stock exchange to fund significant business expansion. Therefore, during the research period, the industrial sector had a significant influence on firm value.

These findings align with Ilbasmis's theory (2023), which suggests that issuers who go public in the capital market may experience volatility in share prices, leading to overpricing or underpricing. However, considering the industrial sector can still be a crucial factor in making investment decisions. As mentioned by Bebczuk and Bebczuk (2003), different industries exhibit distinct stock price movements, enabling potential investors to analyze which sectors are likely to continue improving and in demand during a specific period.

The effect of outstanding shares on firm value

The research findings indicate that the number of outstanding shares does not have a significant impact on firm value. The quantity of shares issued by a company cannot be used as a reference for investment decisions since it does not significantly influence stock prices or overall company value. During the research period, particularly amidst the COVID-19 pandemic, investors and stakeholders focused on analyzing and evaluating other factors that were more likely to drive an increase in firm value.

In situations where there is a large capital market, a company with a high number of outstanding shares may face challenges in increasing its share price due to the substantial funds required to drive such movement. Conversely, if the outstanding shares are relatively small, they can be easily manipulated and influenced by market makers. As a result, the variable of outstanding shares is not a significant factor in investment decisions when it comes to the growth of firm value.

These findings align with the theory proposed by Handini and Astawinetu (2020). They suggest that issuers with a large number of outstanding shares may encounter difficulties in increasing share prices, as the large volume of outstanding shares makes it challenging to achieve a balance between buy and sell orders during transactions on the stock exchange. Furthermore, according to the asymmetric theory presented by Manurung (2019), the number of outstanding shares is considered one of the management information factors that can guide investment decisions for potential investors in response to a company's presence in the capital market. Additionally, Ross (2015) highlights that the number of outstanding shares in IPO companies can be uncertain due to

corporate actions, which adds further uncertainty to investment decision-making.

CONCLUSION

The research focused on analyzing various factors that influence the value of IPO companies, including company size, underwriter reputation, auditor reputation, industry sector, and outstanding shares.

The findings indicate that certain variables have a significant impact on firm value, while others do not. Firstly, the study found that company size does not have a significant effect on firm value. Regardless of whether a company is large or small, the capital market does not necessarily determine the value of its shares as expected. Secondly, the reputation of the underwriter was found to have no significant effect on firm value. Even in uncertain economic conditions, underwriters were unable to provide optimal results in terms of firm value. Similarly, the reputation of the auditor was not found to have a significant effect on the company's value. The professional quality of auditors does not guarantee the actual financial performance of the company. In contrast, the study revealed that the industrial sector significantly affects firm value. Industries that are easily influenced by the global economy tend to experience positive growth and value. On the other hand, the variable of outstanding shares was found to have no significant effect on the company's value. Whether the number of shares outstanding is large or small, it does not impact the company's value during economic uncertainty.

The research outcomes can serve as valuable academic references. Novice investors may consider the industrial sector when making decisions to purchase IPO company shares. Additionally, the government can utilize these findings to evaluate existing regulations and enhance customer protection by implementing regulations that screen companies intending to conduct IPOs, thereby reducing the risk of crimes that may harm investors in the capital market.

Further research could explore additional variables not covered in this study or develop moderation and mediation variables that can provide insights for investors in their decision-making processes regarding IPO shares.

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