



Underpricing Stock Level of Sharehold in Stock Company Doing Income Smoothing Procedures at the Price Offer of Prime Stock in Indonesia Stock Exchange

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ABSTRACT

This study aims to analyze the effect of firm size, profitability, financial leverage to the level of underpricing in companies that are detected to perform income smoothing practices at the time of initial public offering in Indonesia Stock Exchange period 2012-2014. Based on the results of data analysis, partial testing shows that firm size variables, return on assets and financial leverage have no significant effect on the level of underpricing of shares. The result of the research also shows that there is no significant difference between level of underpricing between companies indicated to practice income smoothing with companies that are not indicated to practice income smoothing.

Keywords: Income Smoothing, Underpricing, Stock Exchange

JEL Classifications: G32, G38, G28

1. INTRODUCTION

The availability of funds is an important factor that supports the achievement of corporate objectives. In an effort by the company to obtain externally needed funds, the capital market can be an alternative choice of the company. New securities issued by the company are sold through Initial Public Offering (IPO) in the primary market, then the stock can be traded in the secondary market (secondary market), (Ashari et al., 1994).

There is a phenomenon that often occurs when the company made its IPO of the shares of low price phenomenon (underpricing). According to Jogiyanto (2008) low price phenomenon occurs because the public offering to the public which is cheaply average, the average buy shares in the initial offer can get a high initial return (initial return). This low price phenomenon is one of the efforts of the company for investors interested to invest funds of the company.

The importance of profit information about investors because the profits earned by a company can be one of the bases of assessing the company's performance. This motivates management to be opportunistic to manipulate its performance both before and during bidding. There are several reasons for the practice of income smoothing by management: (1) As an engineering to reduce profits and increase costs of the current period that can reduce tax debt.(2) May increases investor confidence due to earnings stability and dividend policy as desired. (3) Can strengthen the relationship between managers and employees because it can avoid the demand for wages increases or salaries by employees. (4) Have a psychological impact on the economy (Subekti, 2005).

For companies that conduct an IPO on the stock, with a stable profit is expected to attract more investors to invest funds when stocks are offered in the primary market. Thus increasing the company's confidence to not offering its initial stock price is too low which will affect the high level of underpricing (Gujarati, 2003).

2. LITERATURE REVIEW

2.1. Income Smoothing Practices

One of the information that is needed by the company's external party is information about the profit contained in the income statement of the company. Profit information is a component of the company's financial statements aimed at assessing management performance, helping to estimate long-term representative profits, and estimating investment risks or lending funds. Profit information is generally the focus on attention to assessing company performance or accountability of management, in addition to profit information also helps the owners of companies or other parties in estimating future earnings power companies (Handayani, 2008).

Many companies believe that keeping the company's earnings in a stable condition will give a better picture of the company's performance. Companies with stable profit growth rates are more attractive to investors because, according to investors, a smooth income reflects that the company has a low risk and potentially provides a stable return (Hidayanto, 2004).

The importance of profit information is realized by management so that management tends to dis functional behavior (i.e undue behavior), that is by doing income smoothing to overcome conflicts that arise from management with the parties concerned with the company. This can happen because management has more and faster information about the company compared to external parties. Under such conditions management may use its information to manipulate financial statements. The existence of this information gap spurred the practice of income smoothing by management, namely by reducing fluctuations in profits reported by the company. So the company will appear to have a stable profit level through the technique of presenting the financial statements each year (Jatiningrum, 2000).

2.2. Underpricing

Underpricing is a condition where the stock price at the time of IPO is lower than when traded with the secondary market. Basically, the determination of share prices when the IPO is done based on agreement on the issuer and the underwriter, while the stock price in the secondary market is the result of the market mechanism. Stock price is the acceptance of the amount of sacrifices that must be made by every investor for inclusion in the company. This price in the secondary market will move in accordance with the strength of demand and supply that occurs that is based on the demand and supply that occurred. The occurrence of underpricing can also occur due to the asymmetry of information related to the capital market (Juniarti, 2000).

2.3. Factors Suspected to Affect the Occurrence of Underpricing

There are at least four matters affecting the size of the underpriced level in the IPO, namely (1) the system used in pricing, (2) the guarantee system, (3) the high low or cheap the offer price, (4) the many companies that do IPO. In addition to the above four points, empirical evidence also suggests that underpriced levels may be influenced by company-specific characteristics, ie firm size, size

of offer, greater share of offered or held stock, firm age and capital adequacy ratio (Purwanto et al., 2014).

2.4. Company Size

The size of a small company can be determined by several things, including total assets, total sales, average sales rate and average total assets. With respect to total assets, if the company has a large asset total then it indicates that the company is reaching the stage of maturity. The small amount of funds of investment cause dividends to large shareholders and is related to the prospect of the company. Investors will certainly be more interested in offering capital to companies that have good prospects for a relatively long period of time (Ritter, 1998).

2.5. Rate of Return on Total Asset (ROA)

ROA is a measure of company profitability. Profitability of the company provides information to outside party about the operational effectiveness of the company, it is this consideration to include this variable as one of the factors that affect underpricing. The ability of the company to generate profits in the future is shown by high profitability of the company and profit is important information about investors as a balance in investing capital. A company's high profitability reduces uncertainty of investors and thus lowers the level of underpricing. Handayani, (2008) argue that financial performance, particularly profitability, plays an important role in the appraisal of corporate performance and is often used as a basis of investment decisions, particularly in stock purchases.

2.6. Financial Leverage

Financial leverage shows the company's ability to pay its debts with its capital. The high level of corporate financial leverage indicates that the company has large amount of debt compared to its capital, meaning that the company is in high risk. Investors will avoid investing in high risk firms. According to Sri (2006), the magnitude of the company's financial leverage will indicate the greater the financial risk or risk of failure of the company to repay the loan so that it can affect the reasonable stock prices determination at the time of the IPO. High financial leverage will result in the determination of stock prices that tend to be underpriced because it will affect the high uncertainty of return that will be received by investors for their investment. Research conducted by Stice et al. (2009) and Ulber (2009) show that financial leverage has a positive influence on underpricing. However, Witjaksono and Soeryadjaya (2012) study shows that financial leverage have no influence on underpricing.

3. RESEARCH METHODOLOGY

This research uses analytical descriptive method. The object of research is companies conducting IPO in Indonesia Stock Exchange during 2012-2014.

The criteria of the company to be sampled in this research are: (1) Companies that do initial offer between 2012 and 2014 at Jakarta Stock Exchange. (2) The company is underpricing. (3) Having a complete Financial Statement for five consecutive years, covering two years before and after the IPO.

During 2012-2014 there are 76 companies that conduct IPO in Jakarta Stock Exchange, of which 30 data companies are incomplete (can not get financial statement for 5 consecutive years) so that must be removed from the sample, 5 companies have over pricing and 1 company experienced an initial return of 0. Thus there are 40 companies used as samples of this study.

The design of data analysis in this study is: (1) Obtain the IPO price and stock price in the secondary market to determine the level of underpricing of each company. (2) Using the Eckel model, sample classification is made into groups of companies indicated in the practice of income smoothing and group of companies that are not indicated to practice income smoothing.

The techniques used to analyze the effect of firm size, return on asset and financial leverage to the level of underpricing of stocks in companies indicated to practice income smoothing (income smoothing) at the time of IPO on the Jakarta Stock Exchange is a multiple regression technique. The model used is:

$$UDP = a + b1 [Size] + b2 [ROA] + b3 [Lev] + e$$

4. RESULTS AND DISCUSSION

4.1. Descriptive Analysis of Underpricing

Underpricing is a condition where the stock price at the time of IPO is lower than when the stock is traded in the secondary market. In the event of underpricing, investors have the opportunity to get an abnormal return. The underpricing phenomenon that occurs when issuers make an IPO during the study period can be seen in the following graph Figure 1.

During the study period, sample companies conducting IPOs experienced different levels of underpricing. The highest underpricing rate is 227%, while the lowest are 0.8%. The average offering price during the study period is IDR 1,200,58 the average closing price of the 1st day on the secondary market is IDR 1430.25, meaning that there is a positive difference between offering price and closing price, Figure 1.

Based on the comparison between the positive difference between the offering price, the general level of underpricing that occurs when issuers make an IPO during the study period is an average of 19%. Thus, if the investor invests by buying shares when the company makes an IPO, then on average the investor will get a positive initial return to 19%.

4.2. Analysis Description of Sample Classification Using Eckel's Model

Companies selected to be sampled are then classified into income smothers and non-income smothers groups using the Eckel model. Companies that indicated income smoothing practices in the income smothers group, while companies that are not indicated to practice income smoothing entry to the group of non-income smothers.

Eckel's model uses the coefficient of variation (CV) changes from the variable of earnings denoted by CVΔI and CV changes

Figure 1: Sample company underpricing level

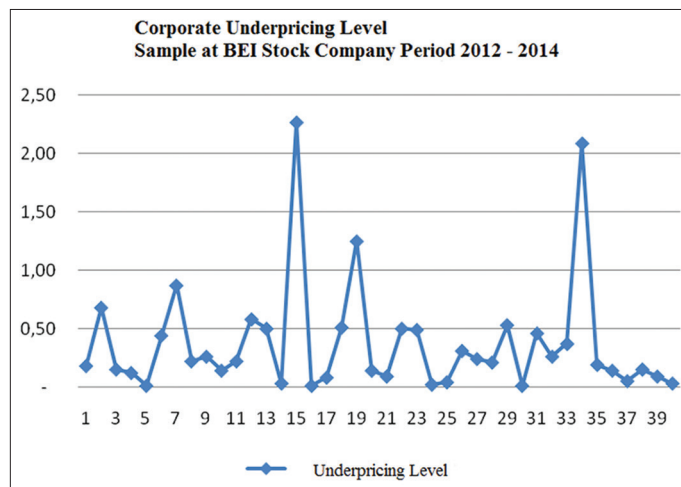


Table 1: Hypotesis testing

Model	Unstandardized coefficients		Standardized coefficients	t	Sig.
	B	Std. Error	Beta		
1					
(Constant)	-0.911	1.268		-0.718	0.478
Size	0.051	0.046	0.198	1.122	0.271
ROA	-0.033	0.095	-0.062	-0.351	0.728
FL	-0.059	0.057	-0.183	-1.036	0.308

a. Dependent Variable: UDP

in sales/revenue (net sales/revenue) variables denoted by CVΔS. Then compare CVΔI with CVΔS. Companies are classified as income smothers if CVΔI is smaller than CVΔS. From the result of classification of sample using Eckel model, from 40 eligible samples, there are 33 companies classified into income smothers group and 7 companies are classified into non-income smothers.

4.3. Hypotesis Testing

Table 1 shows that firm size, ROA and Financial Leverage variables have a larger sig t level of significant (α), then partially, firm size, ROA and Financial Leverage have no significant effect on underpricing. The effect of each variable on underpricing of shares in the IPO in Indonesia Stock Exchange is as follows.

4.3.1. The influence of corporate size against the level of underpricing of shares

The results of statistical calculations in Table 1 show that the firm size variables determined based on average total assets partially have a positive influence and not significant to the underpricing variable. This indicates that the size of the firm does not significantly affect the underpricing level of the IPO. The results of this test do not support the signaling theory that states that large companies will signal to the information provided with the prospectus.

The insignificant effect of firm size of the level of underpricing of stocks may be due to the fact that the company's size information is not of concern to investors, as investors pay more attention to the company's performance as reflected in the audited financial statements by the auditor.

The results of this study support the results of previous research conducted by Yolana and dan Dwi Martani (2005). But not in line with the results of research Reza (2014), which states the variable size of the company has a negative and significant influence on the level of underpricing of shares.

4.3.2. Influence return on assets to the level of underpricing of shares

The results of statistical calculations in Table 1 show that the variable level of profitability is proxy with the level of corporate ROA partially have a negative influence and not significant to the underpricing variable. This shows that the magnitude of ROA does not significantly affect the underpricing level at IPO. The results of this study are consistent with research conducted by Hidhayanto (2004), Purwanto et al. (2014), and Handayani (2008) which can not prove the influence of ROA variable on underpricing.

According to the signaling theory, the level of profitability of the company in the prospectus will give a positive signal to investors that the company can generate profits in the future. However, companies that have a high level of profitability may not necessarily cause the risks faced by investors will be small so it will reduce the underpricing that occurred. The non-significant effect of ROA on underpricing can be caused by investors not paying more attention to the published corporate financial statements. Investors may believe that the company that will go public is the preferred company that has good financial ratios.

4.3.3. The influence of financial leverage against the level of underpricing of shares

The result of statistical calculation in Table 1 shows that the variable of Financial Leverage of company partially has negative influence and not significant to underpricing variable. This indicates that the size of Financial Leverage does not significantly affect the underpricing level of IPO. The results of this study are consistent with the research conducted by Witjaksono and Soeryadjaya (2012) but not in line with the results of research Reza (2014).

Table 2: Group statistics

kel	n	Mean	Std. Deviation	Std. Error mean
u				
Income smoothing	34	0.3953	0.52772	0.09050
non income smoothing	6	0.2483	0.21693	0.08856

Table 3: Independent samples test

Equal Variances	Levene's test for equality of variances		t-test for equality of means						
	F	Sig.	t	Df	Sig. (2-tailed)	Mean difference	Std. error difference	95% Confidence interval of the difference	
								Lower	Upper
u									
Equal variances assumed	1.349	0.253	0.666	38	0.509	0.14696	0.22053	-0.29948	0.59340
Equal variances not assumed			1.161	17.934	0.261	0.14696	0.12662	-0.11914	0.41306

Financial leverage indicates a company's risk and uncertainty. The amount of financial leverage the company will show the greater the financial risk or risk of failure of the company to return the loan so that it can affect the reasonable stock price determination at the time of the IPO. The non-significant effect of Financial leverage on the level of underpricing of stocks may be due to the investor capturing the signal delivered to the company's prospectus, the use of funds received from the IPO is partly intended to pay off the company's liabilities, so that in the future the company will not be burdened with high liabilities, and the company's performance will be far better that will have an impact on the rise of the company's stock price ahead.

4.3.4. Differences in the level of underpricing between companies indicated to practice income smoothing with companies that are not indicated to practice income smoothing

Based on research and testing conducted, then conducted analysis and drawing conclusions of the difference level underpricing between companies indicated to practice income smoothing with companies that are not indicated to practice income smoothing in the Jakarta Stock Exchange.

From 40 companies sampled in this research, using eckel model there are 34 companies indicated to practice income smoothing practice. The next research was conducted by comparing the level of underpricing of income smoother company group of group of non income smoother company by using difference hypothesis tests for two independent sample groups called independent sample test in Table 2 and Table 3.

The statistical test conducted by using t tests to give the result that the average of underpricing level for 34 sample companies including income smoother group is 0.3953 with standard deviation from 0.5277. While the average level of underpricing for 6 sample companies included in the group of non-income smoother is 0.2483 with a standard deviation from 0.21693 in Table 3.

To test the similarity in variants, this study uses t tests numbers that assume both variances is equivalence (equivalence variances assumed). Based on the output of SPSS 16 t test is 0.666 with a significance value of 0.509. Therefore $P > 0.05$ then H_0 accepted and H_a is rejected. That is, there is no significant difference in the level of underpricing between companies indicated to practice income smoothing with companies that are not indicated to practice profit.

The absence of a significant underpricing rate difference suggests that earnings smoothing measures do not have the effect of lowering underpricing levels at the time of the company's IPO. This can be caused by several factors, such as the reluctance of companies to conduct an IPO to the primary market to set a high initial price of shares caused by anxiety that the stock does not get a positive response from the market. The desire for investors to obtain a high abnormal return, so it tends to choose shares that are sold at cheap prices.

Another factor is in conducting the analysis of investors may not use profit as a reference but using other approaches such as the amount of dividends provided, so that the income smoothing action does not affect the investment decision significantly.

5. CONCLUSION

- During the study period, sample companies conducting IPO experienced different levels of underpricing. The highest underpricing rate is 227%, while the lowest are 0.8%. Based on the comparison between the positive difference between the offering price, in general the level of underpricing that occurs when issuers do public offering to the public during the study period is an average of 19%.
- From the result of classification of sample using Eckel model, from 40 eligible samples, there are 34 companies classified into income smothers group and 6 companies are classified into non-income smothers group.
- From the statistical test results, partially firm size, corporate profitability (ROA), financial leverage does not significantly influence the level of underpricing of stock.
- The statistical test done by using t tests to give result there is no difference between level of underpricing which is significant between companies indicated doing income smoothing practice with companies that are not indicated to practice income smoothing.

Based on the results of the research that has been done and by looking at the existing limitations, the authors propose suggestions as follows:

- Subsequent studies may try different methods of classifying samples and then compared with the Eckel model.
- The result of the research shows that the income smoothing action done does not have a significant positive effect on the level of underpricing of the stock, therefore the company's

management should not practice income smoothing in subsequent periods.

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