THEORITICAL REVIEW ON INITIAL PUBLIC OFFERING

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Abstrak

Tulisan ini menjelaskan teori-teori yang dapat digunakan peneliti dalam membahas topik IPO (Initial Public Offering). Teori keagenan, informasi asimetris, teori sinyal, teori kesan, dan pelayaran kemenangan. Teori-teori tersebut mempunyai pendapat yang berbeda-beda mengenai kegiatan IPO sehingga teori-teori yang digunakan akan menjelaskan secara lengkap mengenai kegiatan IPO perusahaan.
Kata Kunci: Initial Public Offering, Winner Cruise, Impreserio Theory.

Abstract

This paper explains the theories that can be used by researchers discussing the topic of IPO (Initial Public Offering). Agency theory, asymmetric information, signal theory, impression theory, and winning voyages. These theories have different opinions regarding IPO activities so that the theories used will fully explain the company's IPO activities.
KeyWords: *Initial Public Offering, Winner Cruise, Impreserio Theory.*

1. INTRODUCTION

Initial Public Offering (IPO) is an activity carried out by a company selling company shares to the public to obtain external funding (Jogiyanto, 2017). The change in company status from private to public is called an IPO (Sugiyanto et al., 2023). Companies can sell shares and provide free warrants to investors as an attraction to order company shares during the IPO. The condition of the company when the IPO has a lot of interest is called oversubscription, while the condition of the company when the IPO does not have many interest is called undersubscription.

Companies wishing to conduct an IPO in Indonesia must go through the Indonesian Stock Exchange. The company must have 300 shareholders in the company (Adimaja, 2022). The paid-up capital that must be met by the company is at least Rp 3 billion. Another requirement that companies must fulfill regarding financial reports is that companies must provide financial reports that have been audited by KAP to be submitted to the Indonesian Stock Exchange as a condition for an IPO on the IDX (Silviyani et al., 2014).

The IPO company must determine the scheme the company wants to run when selling shares to the public. If the company carries out a best effort scheme, the company does not get certainty from the underwriter regarding the value of share sales. If the company's shares are not sold as requested by the Indonesian Stock Exchange, the shares will be returned to the company. Companies that choose the firm commitment scheme will receive the entire value of the share sales that the company has submitted to the Indonesian Stock Exchange (Gunawan & Hendrawaty, 2018). Even though in reality the shares are not fully purchased by the public, the underwriter will buy all the unsold shares. A side effect of using the firm commitment scheme is that the company has to pay a higher fee for selling shares (Rejeki, 2015).

Events in the market certainly vary. The condition of the company is underpricing and overpricing. Different criteria for companies will make it difficult for investors to choose them. Asymmetric information theory, signaling theory, impresario theory, and winner cruise will explain the essence of public offerings.

2. LITERATURE REVIEW

Assymetric Information Theory

Investors who have more information than other investors can be said to have asymmetric information. In line with previous experts who discussed the same topic regarding asymmetric information: The Economics of Information: "Information is a valuable resource: Knowledge is power" (Stigler, 1961). Two things can be done to overcome general problems related to information asymmetry that have been previously expressed (Akerlof, 1970): 1. Adverse Selection, management definitely knows what the company will do in the future regarding growing company value. However, not all of this information is conveyed by management to investors regarding the core of the company to avoid taking advantage of competitors. The impact of this is the exit of good assets at rational prices which means the entire market will be filled with bad and irrational assets. 2. Moral Hazard, the information that management has is definitely more than that of external parties (investors, creditors and the government) both in quality and quantity. It is possible for company management to act in violation of applicable ethics or norms so sensitivity to this is required (Kristiantari, 2013).

Signalling Theory

Signal theory is a signal given by the owner of the information where the information provided is useful information (Spence, 1973). Another article on signaling theory explains that company stakeholders have their own perspective towards investors regarding the relationship of company information to investor reactions (Arens & Loebbecke, 1996). Company stakeholders will provide information in the form of signals to investors to increase investor interest in the company. The signals given to investors can also be things that investors are not interested in, but the signals given by stakeholders will certainly be a consideration for investors before and after investing (Purbarangga & Yuyetta, 2013).

The information provided by the issuer to investors is stated in the prospectus report. The oldest information in the prospectus report can be used by investors to decide on investment policies (Su & Bangassa, 2011). This information can be in the form of: offering price, shares offered, percentage of shares offered, IPO funds obtained, capital structure, purpose of using the funds, and so on. These signals are qualitative and quantitative in nature and can be used directly or must be processed first so that they can help investors gain profits (Jogiyanto, 2017).

Impreserio Theory

Impreserio theory explains that companies have agreements with external institutions (underwriters, auditors, legal consultants, etc.) regarding the company's IPO activities to create excess demand (Shiller, 1990). The method used by companies is to use external institutions that have a high reputation and connections to be involved in IPO activities (Shiller, 1990). The company's goal in choosing the external institutional category is to convince investors regarding IPO activities so that when investors have high confidence in the company, there will be an increase in share prices.

Another thing that was explained was related to the company's IPO funds. The sales system at the time of IPO is divided into 2, namely full commitment and best effort (Rock, 1986). Best effort is a form of attitude from the securities underwriter towards the issuer regarding the sale of shares only to the extent of the underwriter's ability to sell the issuer's shares. Full commitment is a form of attitude from the securities underwriter towards the issuer regarding the sale of shares where the securities underwriter will be fully committed to the sale of the issuer's shares but the issuer must pay a certain fee to the securities underwriter (Rosyidah, 2014). Dominant companies will choose full commitment rather than best effort because the company wants certainty and security (reducing risk) regarding the IPO funds obtained (Shiller, 1990). Full commitment also supports IPO companies to obtain IPO funds quickly, thus speeding up the realization of the use of the company's IPO funds.

Winner's Cruise

This theory is a development of the asymmetric information theory where there are differences in information ownership between various parties. This theory is developed from the perspective of the parties technically involved in selling shares to the public. This theory reveals that there are parties who know the original price of the company and there are also parties who do not know the original price of the company at all (Rock, 1986). This condition makes those who know it very profitable when they find out that the original price of the company is higher than the IPO price. Those who do not know this information will experience losses when the company they order is overpriced. This theory also reveals the potential for random errors from undewriters in determining the price sold to the public. This gap is exploited by information owners to gain profits from purchasing IPO shares (Rock, 1986).

Withdrawn IPO Theory

This theory is the most different theory from other theories which also discuss IPOs. This theory reveals that when the price of an IPO company has been determined, that price is an overall picture of the company (Ronni, 2003). This theory assumes that the underwriter does not manipulate the assessment of the company's share price. The underwriter will adjust the company's IPO price to systematic or fundamental factors, demand and the implementation of the company's IPO. If these factors are taken into consideration it will give rise to a positive initial return (Ronni, 2003). WIPO theory assumptions:

1. Underwriters are the main players in the long term
2. Frequent investors (owners of information and experience) and occasional investors (not owners of information and inexperienced)
3. Share buyers have limitations in investing, namely limited funds
4. The systemic factor is market demand. The random factor is the average and the density function has a value of zero.

3. CONCLUSION

The theories used in this research use their respective points of view in assessing the price of a company. Some discuss internal company factors and external company factors. Each theory has its own advantages and disadvantages. Combining each existing theory can improve and help investors in determining the purchase of IPO shares.

Asymmetric information and Winner's Curse complement each other and clarify the external factors that investors should pay attention to before ordering an IPO. Investors are required to have more information than other investors regarding company prices. Investors can form a community to serve as a forum for investors to exchange information about IPO companies. This situation will make investors gain profits.

Signaling theory and impresario theory complement each other and clarify the internal factors that investors must pay attention to before ordering an IPO. The company provides signals to investors regarding the company's condition. To increase demand for company shares, the company will attract reputable institutions, which means the same as signaling theory. Principal provides information to the public by disseminating information as widely as possible to the public so that the company is in the spotlight and increases demand from the company.

Withdrawn IPO is a very neutral theory compared to existing theories. In theory, it can be concluded that the company's IPO activities run naturally without any manipulation from various parties, especially the underwriter. The underwriter is the party who assesses the share price fairly by taking into account systemic (fundamental) and non-systemic factors (IPO schedule).

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