

## **The Effect Of Ownership Concentration And Warrants Inclusion Towards The Level Of Stock Underpricing During The Initial Public Offering On Idx Period 2019 & 2020**

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### **ABSTRACT**

Due to the rapid rate of business development, companies require a large capital by issuing shares to the public, where in 2020 COVID-19 brings a serious impact on the world's economic sector. This study is meant to investigate the effect of ownership concentration and warrants inclusion on the level of share underpricing during the IPO (Initial Public Offering) on the Indonesia Stock Exchange in 2019 and 2020. The research population are entities registered on the Indonesia Stock Exchange and conducting IPO in 2019 and 2020, amounting to 107 companies. The method used during the selection of the sample group is the purposive sampling method. This study uses multiple linear regression analysis. The test results indicate that (1) ownership concentration has no effect on underpricing (2) the inclusion of equity has no effect on underpricing, and COVID-19 as a control variable has a negative effect on underpricing.

Keywords: *Underpricing, Ownership Concentration, Warrant inclusion, COVID-19*

## PRELIMINARY

The COVID-19 pandemic has brought serious impacts on the world's economic sectors, including Indonesia. The restriction regulation form or lockdown in various export-import destination countries from or to Indonesia has an impact on various aspects. The Composite Stock Price Index (CSPI/ IHSG) on the Indonesia Stock Exchange (IDX/ BEI) continues to weaken along with the increasing number of people infected by COVID-19 (Christiawan, 2020).

Currently, business development is growing rapidly, especially among those who aim to develop their business. One way for the business to grow is by expanding the business, which in the end the company needs to have a large enough capital and often the capital is taken from within the company is not sufficient. An alternative way to get the capital is to issue shares to the public or called as go public.

The process of offering shares to the primary market is called an Initial Public Offering (IPO), which then can be traded to the secondary market (Lutfianto, 2013). The problem that often emerges, when the company's shares have been traded in the secondary market, it often is underpricing. Underpricing is a condition where the primary market price is lower than the stock price sold on the secondary market on the first day. The underpricing phenomenon can happen due to the asymmetry of information between underwriters who have more information about the company compared to the issuers and investors. This phenomenon can trigger a conflict of interest between the agent and the issuer, which can lead to a condition of information asymmetry within the concept of agency theory.

Table 1 shows the growth of underpricing shares in companies conducting IPOs in the Indonesia Stock Exchange from 2017 to 2020. Underpricing occurs in almost all countries. According to table 1, within 4 periods in 2017 - 2020, there were 201 companies that conducted IPO and 187 of the companies experienced underpricing. Companies that experienced underpricing a the time of IPO fluctuated, such as in 2017 to 2018 there was a fairly high spike of 21 companies, while from 2018 to 2020 it was volatile. The focus of

this research is to observe companies that experience underpricing before and after COVID-19 in 2019 and 2020.

**Table 1: *Underpricing* Phenomenon of Stocks in 2017-2020**

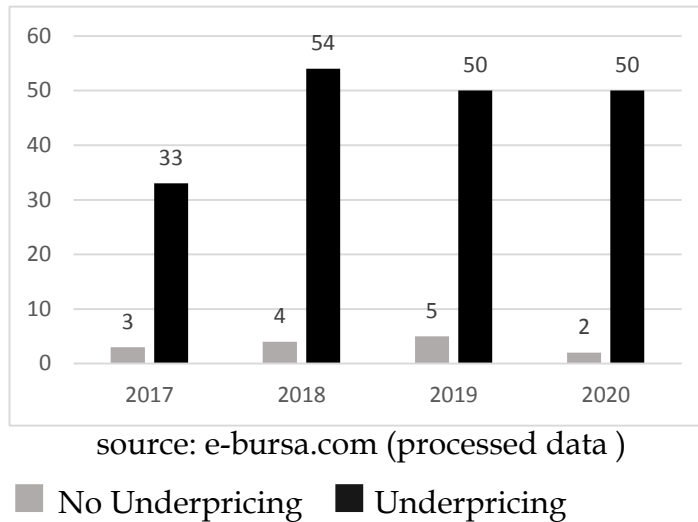
Year	Number of IPO	Underpricing	% Underpricing
2017	36	33	91.67%
2018	58	54	93.10%
2019	55	50	90.91%
2020	52	50	96.15%
Total	201	187	92.96%

Data source: e-bursa.com (processed data)

Figure 1 shows that the number of companies that don't experience *underpricing* from 2017-2020 decreased. It is known that 2020 doesn't experience *underpricing* experiencing drop, where only 2 companies experience underpricing. The occurrence rate of *underpricing* in companies that offer shares during the initial public offering (IPO) in 2017-2020 is very high with an average rate of 92.96%.

The purpose of this study is to give a new perspective to IPO activity in the middle of the COVID-19 pandemic and analyze whether ownership concentration has an effect on *underpricing* and whether warrant inclusion positively affects stock *underpricing* during *initial public offering* (IPO) in the Indonesian stock exchange in 2019 and 2020. The benefits of this study are to expand our outlook on the capital market and understand factors that can influence *underpricing* as well as to give a basic understanding of decision-making for the investors.

**Figure 1: The number of companies that experience *underpricing* with companies that do not experience underpricing in 2017-2020**



## LITERATURE REVIEW AND HYPOTHESES

### 1. Signaling Theory

According to Allen and Faulhaber, 1989 (in Martani, 2003) information about companies listed in the IPO prospectus is a signal for investors in deciding to invest. The information can be in financial and non-financial forms and can give an overview of the company's prospects in the future. Signalling theory is used in this study because the concentration of ownership and inclusion of warrants has the potential to be a signal for investors to be able to influence investor decision-making in determining prices so that it has the potential to influence or reduce the level of stock underpricing.

### 2. Underpricing

Underpricing is the difference between the closing stock price on the secondary market compared to the stock price on the primary market on the first day (Hartono, 2009:34). The stock offering price in the primary market is the agreed price between the issuer and the underwriter which is traded on the secondary market. The difference between the secondary stock price and the primary market will determine the initial return (Hartono, 2019). Initial Return (IR) can be formulated as follows:

$$IR = \frac{(\text{Closing stock price in the secondary market} - \text{stock price in the primary market})}{\text{stock price in the primary market}} \times 100\%$$

### 3. Concentration Ownership

According to Hermawan & Handayani (2018), concentration ownership is the number of share ownership, where a small part of it is owned by a bunch of people or individuals, and the largest percentage of share ownership is owned by other groups/individuals. A high concentration of ownership at the initial time of public offering does not attract investors. Thus, it can lead to a high level of underpricing (Fardila & Rahmawati, 2019). A low initial share price will provide an opportunity for the majority of shareholders to maintain their control rights by buying shares during the IPO period (Hakim, 2016). The concentration of ownership has a positive influence on shareholders to conduct management control and build the company's reputation (Rohmatullaily, 2019).

Research by Nanda (2019) and Irawan (2015) concludes that ownership concentration has a positive effect on the level of underpricing. This finding is in line with Azimaturrahma's study (2017) which says that ownership concentration has a significant effect on underpricing.

H1: Concentration of ownership has an effect on underpricing

### 4. Inclusion of Warrant

A warrant is an option when investors buy IPO shares in a certain amount, the company will provide warrants for free during the initial public offering which can be utilized in the long term through conversion of warrants when the date arrives (Edwin, 2006:25).

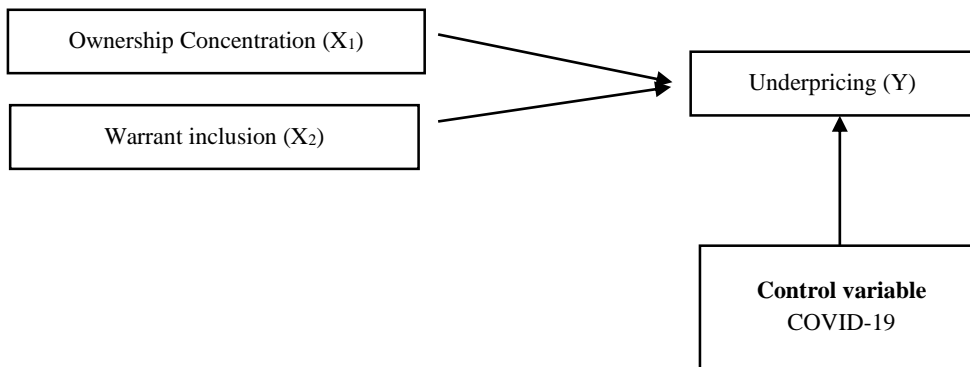
Previous research by Hwang (1989) and Janice (2001) concluded that companies that include warrants at the time of IPO have the potential to experience higher underpricing.

Companies that include warrants have a greater risk than those that do not include warrants. Based on the empirical outcomes of the research, the hypothesis proposed in this study is:

H2: Warrant inclusion has a positive effect on the level of underpricing

## Conceptual Framework

This study will examine the effect of ownership concentration and warrant inclusion towards underpricing. Schematically, the description of the research framework is outlined as follows:



The dependent variable/dependent variable from this research is the stock underpricing (Y) which is measured by the initial return. The independent variables used are Ownership Concentration (X1) and Warrants Inclusion(X2). This research use COVID-19 as a control variable because it may have a different condition from the period before COVID-19 and the period during COVID-19, and it is expected to reduce the bias because of exogenous shock COVID-19. The control variable uses a dummy variable that equals 0 for the period before COVID-19 and 1 for the period during COVID-19. This study is conducted to analyze the effect of the independent variables on the dependent variable.

## RESEARCH METHOD

This study uses a quantitative approach. The population in this study were companies that made initial public offerings on the Indonesia Stock Exchange (IDX) in 2019 and 2020, amounting to 107 companies. The sample selection method in this study used a sampling technique where the sample group must fulfil the following criteria: (1) Companies who conducted initial public offerings in 2019 and 2020 and presented financial statements in 2019 and 2020. (2) Companies that have complete data related to the variables researched. The data collection technique in this study is using documentation techniques. The type of data used in this research is secondary data. Where the data collected was obtained from the IPO prospectus, while other supporting data are obtained through the official

websites of IDX, Yahoo Finance, and Refinitiv. The collected data is investigated by statistical testing and multiple linear hypothesis testing

## RESULTS AND DISCUSSION

### Results of Descriptive Statistics Test

Descriptive statistics are used to analyze the calculation of the maximum value, minimum value, mean value, and standard deviation. In overall, the test results are shown in the following table:

**Table 2: Descriptive Statistics**

Variable	Obs	Mean	Std. Dev.	Min	Max
Underpricing	100	.4717819	.2120011	.005102	1.106383
JumlahKepe~m	100	.516752	.1824565	.1421	.8503
Penyertaan~n	100	.36	.4824182	0	1
Corona	100	.5	.5025189	0	1

Keterangan:

JumlahKepe~m : Total share ownership concentration

Penyertaan~n : Warrants inclusion

Based on the table above it can be explained that in 2019 and 2020, the level of stock underpricing has a minimum value of 0.005 and a maximum value of 1.10. The mean value is 0.47 and the standard deviation is 0.21. The number of owners has a minimum value of 0.14 and a maximum value of 0.85. The mean value is 0.51 and the standard deviation is 0.21. The inclusion of warrants has a maximum value of 1. The mean value is 0.36 and the standard deviation is 0.48. Lastly, COVID-19 has a maximum value of 1. The mean value is 0.5 and the standard deviation is 0.50.

### Classical assumption test

The next section discusses the results of the classical assumptions test used in this study.

### Normality Test

The data normality test is a test to see whether the data obtained is normal. The data is considered normally distributed if the chi probability is greater than 0.05. The table below shows the results of the normality test conducted by the researchers using STATA 16.

**Table 3: Normality Test**

Variable	Skewness/Kurtosis tests for Normality				
	Obs	Pr(Skewness)	Pr(Kurtosis)	adj chi2(2)	joint Prob>chi2
res2	100	0.4065	0.4934	1.18	0.5534

Considering the results of the normality test, the table above shows that the probability value of  $\chi > 0.05$ , which is 0.5534. It can be deduced that the data used in this test is normally distributed.

**Multicollinearity Test**

The multicollinearity test is used to see whether the regression model is correlated with each other between the independent variables. A good variable is a variable that does not have any correlation with each other. Multicollinearity testing can be determined if the tolerance value  $> 0.10$  and the Variance Inflation Factor (VIF)  $< 10$ .

**Table 4: Multicollinearity Test**

Variable	VIF	1/VIF
Penyertaan~n	1.02	0.982530
JumlahKepe~m	1.01	0.989360
Corona	1.01	0.993051
Mean VIF	1.01	

Keterangan:

JumlahKepe~m : Total share ownership concentration

Penyertaan~n : Warrants inclusion



Based on the test in the table above, each variable has a tolerance value > 0.10 VIF value < 10 which indicates that there is no correlation between the independent variables in this regression model.

### Heteroscedasticity Test

The heteroscedasticity test is used to see the state of the occurrence of variance and the residual inequality with other observations.

**Table 5: Heteroscedasticity Test**

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity  
 Ho: Constant variance  
 Variables: fitted values of Underpricing

chi2(1) = 0.01  
 Prob > chi2 = 0.9210

The heteroscedasticity test is used to determine a situation where inequality occurs. Based on the test result shown in the table above, the chi-square probability is > 0.05, which is 0.9210. So, it can be inferred that there is no heteroscedasticity in this regression model.

### Multiple Linear Regression Analysis

The test used in this research is Multiple Linear Regression Analysis. Multiple linear regression analysis was used to obtain a comprehensive overview of the influence between underpricing, number of shareholdings, warrants, and COVID-19.

**Tabel 6: Analisis Regresi Linear Berganda**

Source	SS	df	MS	Number of obs	=	100
Model	.886943861	3	.295647954	F(3, 96)	=	7.97
Residual	3.56255847	96	.037109984	Prob > F	=	0.0001
				R-squared	=	0.1993
				Adj R-squared	=	0.1743
Total	4.44950233	99	.044944468	Root MSE	=	.19264
Underpricing	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
JumlahKepem~m	.1169468	.106682	1.10	0.276	-.0948153	.3287089
PenyertaanW~n	.0717174	.0404885	1.77	0.080	-.0086515	.1520864
Corona	-.1774157	.0386625	-4.59	0.000	-.2541601	-.1006713
_cons	.4742389	.0641121	7.40	0.000	.3469775	.6015004

Keterangan:

JumlahKepe~m : Total share ownership concentration

Penyertaan~n : Warrants inclusion

Based on the table 6, the multiple linear regression equation used in this study is as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$$

$$Y = 0,474 + 0,116X_1 + 0,071X_2 - 0,177X_3 + e$$

where:

Y : *Underpricing*

α : Constant

β<sub>1</sub> β<sub>2</sub> β<sub>3</sub> : Regression Coefficient

X<sub>1</sub> : Total Shareholders

X<sub>2</sub> : Warrant Inclusions

X<sub>3</sub> : *COVID-19*

e : Standard error

### Hypothesis Test

In this section, we describe F-test in table 7 to test model fitting, and we use the T-test on table 8 to test the hypothesis.

**Table 7: F-Test**

Source	SS	df	MS	Number of obs	=	100
Model	.886943861	3	.295647954	F(3, 96)	=	7.97
Residual	3.56255847	96	.037109984	Prob > F	=	0.0001
				R-squared	=	0.1993
				Adj R-squared	=	0.1743
Total	4.44950233	99	.044944468	Root MSE	=	.19264

Based on table 7, the probability of chi is 0.0001 < 0.05 so it can be inferred that the variables of share ownership, warrants, and COVID-19 influence stock underpricing.

**Table 8: T-test**

Underpricing	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
JumlahKepem~m	.1169468	.106682	1.10	0.276	-.0948153	.3287089
PenyertaanW~n	.0717174	.0404885	1.77	0.080	-.0086515	.1520864
Corona	-.1774157	.0386625	-4.59	0.000	-.2541601	-.1006713
_cons	.4742389	.0641121	7.40	0.000	.3469775	.6015004

Keterangan:

JumlahKepe~m : Total share ownership concentration

Penyertaan~n : Warrants inclusion

### **Variable of share ownership towards underpricing**

According to the results shown in the t-statistics table 8, the probability value is  $0.276 > 0.05$  with a t-count value of 1.10. So, it can be inferred that the number of share ownership has no effect on underpricing. In this case,  $H_0$  is accepted and  $H_1$  is rejected.

### **Warrant inclusion variable towards underpricing**

According to the result shown in the t-statistics table 8, the probability value is  $0.080 > 0.05$  with a t-count value of 1.77. Thus, it can be inferred that the number of share ownership has no effect on underpricing meaning that  $H_0$  is accepted and  $H_2$  is rejected.

### **COVID-19 variable against underpricing**

According to the results of the t-statistics table 8, the probability value is  $0.000 < 0.05$  with a t-count value of -4.59 so it can be concluded that the COVID-19 variable has a negative effect on underpricing. Thus, it can be concluded that conditions during the COVID-19 period caused people to be careful in assessing the shares to be purchased so that underpricing was lower during the COVID-19 conditions.

## **DISCUSSION**

### **The effect of the number of shareholdings on underpricing**

The calculation of the STATA test for the variable number of share ownership on underpricing come with a t-count value of 1.10 with a probability value of 0.276, which is greater than 0.05. This indicates that the number of share ownership has no effect on underpricing. Based on the results of the study, the number of shareholdings is not a

concern for investors to invest. Potential investors are more focused on the share price set at the time of the IPO. A high or low concentration of ownership does not indicate an influential signal and is not an indicator that investors pay too much attention to Venkatesh & Neupane (2005). The conclusion of this study is not supporting the research findings of Nanda (2019) and Irawan (2015) who concluded that ownership concentration has a positive effect on the level of underpricing. Based on signalling theory, The number of share ownership cannot be used as a signal for investors to reduce the occurrence of stock underpricing.

### **The effect of warrants inclusion on underpricing**

The calculation results of the STATA test for the variable of the inclusion of warrants towards underpricing obtained a t-count value of 1.77 with a probability value of 0.080 which is greater than 0.05. This indicates that the inclusion of warrants has no influence on underpricing. Based on the data obtained, it can be explained that companies that include warrants during IPO do not affect underpricing, meaning that companies that include warrants at the time of IPO do not experience a higher rate of underpricing. The result of this study contradicts the research of Hwang (1989) and Janice (2001), which concluded that the warrant has a positive effect on the level of underpricing. Based on signalling theory, the warrants inclusion has not been able to be a signal for investors to reduce the occurrence of stock underpricing.

The result of testing the COVID-19 control variable on underpricing shows that the effect of COVID-19 on underpricing has a t-count value of -4.59 with a probability value of 0.000, which is less than 0.05. This shows that COVID-19 has a negative effect on underpricing. This result indicates that the higher the rate of the COVID-19, the lower the level of underpricing will be. This refers to the signalling theory, namely with the COVID-19 pandemic. This condition can give the signal for investors to be more careful with the uncertainty of IPO stock prices when a global crisis or exogenous shock occurs, and it impacts reducing stock underpricing.

## **CONCLUSION**

Judging on the results of research and the conducted discussion to understand the effect of concentration of ownership and inclusion of warrants on underpricing at the time of the IPO on the Indonesia Stock Exchange for the period 2019 and 2020, it can be concluded:

1. The number of share ownership has no effect on underpricing because the number of share ownership is not something that investors pay too much attention to when buying shares.
2. Investing in warrants has no effect on underpricing, companies that invest in warrants have no effect on stock underpricing.

For further research, researchers can explore deeper into the issue of the number of share ownership and inclusion warrants at the level of stock underpricing during the COVID-19 shock, because the results of this study indicated that the dummy variable COVID-19 as the control variable was a significant difference between before the COVID-19 shock and during the COVID-19 shock. Researchers can explore other variables to find solutions to reduce stock underpricing, such as ownership credibility and company reputation.

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