

# SHARIA COMPLIANCE AND ASYMMETRY IPO INFORMATION ON THE INDONESIA STOCK EXCHANGE

## SHARIA COMPLIANCE AND ASYMMETRY IPO INFORMATION ON THE INDONESIA STOCK EXCHANGE

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### Abstract

*This study aims to analyze the effect of shariah compliance status, and information asymmetry as a proxy for institutional ownership variables, and company size on excess demand in initial public offerings on the Indonesia Stock Exchange. This study uses 51 companies that conduct initial public offerings on the Indonesia Stock Exchange as research samples obtained through the purposive sampling method. The research method used in this study is a quantitative method with secondary data. The analytical tool in this research is IBM SPSS version 28 using classical assumption detection in the form of normality detection, heteroscedasticity detection, autocorrelation detection, and multicollinearity detection. This study also used multiple regression analysis and hypothesis testing using a t-test, F-test, and coefficient of determination test. The results of this study show that shariah compliant status does not affect excess demand in initial public offerings, while institutional ownership variables positively and significantly affect excess demand in initial public offerings and company size negatively and significantly affects excess demand in initial public offerings on the Stock Exchange Indonesia.*

**Keywords:** *Initial Public Offering, Shariah Compliant Status, Institutional Ownership, Company Size, Oversubscription Ratio*

### 1. INTRODUCTION

Investor demand is important for the success of initial public offerings to companies that have just expanded, whether they are sharia-labeled companies or not. Investors can be interpreted as parties who invest their funds in the issuer company. According to data from the Indonesian Central Securities Depository, the number of investors on the Indonesia Stock Exchange in 2020 increased by 200%, or 2,495,351 from 2017. The increase in the number of investors from year to year was also followed by an increase in companies that went public/IPO or offer their shares to the public.

Companies that carry out IPOs certainly expect the best results from the implementation of the IPO, therefore the performance of the IPO plays an important role in this. IPO performance can be seen from various things, one of which is the characteristics associated with each country (Tajuddin et al, 2019). Indonesia is one of the centers of Islamic finance in the world, this is supported by the majority of the Indonesian population who adheres to Islam. Sherif and Lusyana (2017) assume that along with the increasing development of the Islamic financial system, companies that go public can experience growth.

In addition to the characteristics of the Indonesian state that determine the performance of the IPO. There is also a form of success for IPO companies in attracting investors, namely the IPO oversubscription. Initial public offerings in Indonesia in 2020 experienced oversubscription with a ratio of 67 times and a ratio of 124.09 times. Not only in Indonesia, but the phenomenon of high oversubscription is also experienced in several

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countries such as the UK, China, and the United States which have OSR levels of 20,10,

1200, 600.5, 763, and 30.

Countries that experience high levels of oversubscription generally also experience high levels of underpricing. According to Sautma (2003), most of the theories that explain the underpricing of initial offering prices are based on the assumption that there is a difference in information between various parties regarding the value of a new share. This difference in information causes the issuing company to prefer to distribute IPO information to the company or usually known as institutional investors as informed investors. In addition to institutional investors, the existence of information asymmetry can also be seen from the size of the company which is seen from the assets owned by the company.

Research on the shariah-compliant status and asymmetric information on IPO oversubscription has been carried out in several countries, namely Malaysia and Saudi Arabia. Research in Malaysia conducted by Tajuddin et al (2019) and Cheong (2021) found that the subject of finding the status of sharia compliance had a positive and significant effect on IPO oversubscription. In addition, Tajuddin et al (2019) also found that institutional ownership has a positive and significant effect on IPO oversubscription, and company size negatively affects IPO oversubscription. Research in Saudi Arabia conducted by Alqahtani and Boulanouar (2017), found that regarding sharia compliance, institutional investors and company size both have a positive effect on the demand for initial shares.

Based on the problems that have been described, this study aims to analyze the effect of shariah compliance status, information asymmetry that is proxied by institutional ownership variables, and company size on excess demand in initial public offerings on the Indonesia Stock Exchange.

## **2. LITERATURE STUDY**

### **Signal Theory**

The signaling theory was first put forward by Spence in 1973 which explains that the sending party (the owner of the information) gives a signal or signal in the form of information that reflects the condition of a company that is beneficial to the recipient (investor). According to Brigham and Houston (2006), the signal theory is the action of company management in providing instructions to investors about the company's prospects. Connelly et al (2011) argue that signal theory is useful for explaining behavior between two parties (individuals or organizations) who have access to different information.

### **Bandwagon Theory**

The bandwagon theory first appeared in American politics in 1848 during the presidential campaign by Zachary Taylor. Bandwagon theory is the tendency of individuals to acquire a certain style, behavior, or attitude because everyone else does it (Robert, et al, 1994). According to bandwagon theory, buyers will buy when they see previous buyers investing in a new stock offering. This occurs even when potential buyers have favorable information about something new, thus rationally ignoring their information (Ljungqvist, 2006).

### **Information Asymmetric Theory**

Information asymmetry theory was first expressed by George Akerlof in 1970. According to Jensen and Meckling (1976), information asymmetry is a condition that occurs when two groups (agents and principals), where the principals are people who are trying to maximize their utility, then there is a reason to try to convince the agent to buy shares in the company because the agent has less information than the principal. This study uses information asymmetric theory to describe the research variables of institutional ownership and firm size.

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## Literature Review and Formulation of Hypotheses Sharia Compliance Status

Research on IPO oversubscription has been conducted by Tajuddin et al (2019) in Malaysia using the variable shariah-compliant status to see its effect on investor demand when the company conducts an IPO. The results of this study are that shariah-compliant status has a positive effect on IPO oversubscription. A similar study was also conducted by Alqahtani and Boulanouar (2017) in Saudi Arabia who used the variable shariah-compliant status to see its effect on investor demand when the company conducted an IPO. The result of this study is that sharia compliance has a negative effect on IPO oversubscription. Based on this, the research hypothesis on sharia compliance indicators is as follows:

**H1: Shariah-compliant status affects IPO oversubscription on the Indonesia Stock Exchange**

## Institutional Ownership

Research on IPO oversubscription has been carried out by (Tajuddin et al., 2019) in Malaysia by using institutional ownership as a proxy for information asymmetry. The result of this study is that institutional ownership has a positive effect on IPO oversubscription. A similar study was also conducted by Imamah et al (2019) in Saudi Arabia by using the variable of institutional ownership to see its effect on investor demand when the company conducts an IPO. The result of this study is that institutional ownership has a negative effect on IPO oversubscription. Based on this, the research hypothesis on indicators of institutional ownership is as follows:

**H2: Institutional ownership affects IPO oversubscription on the Indonesia Stock Exchange**

## Company Size

Research on IPO oversubscription has been carried out by Tajuddin et al (2019) using firm size as a proxy for information asymmetry. The result of this study is that company size has a negative effect on IPO oversubscription. A similar study was also conducted by Alqahtani and Boulanouar 2017 in Saudi Arabia by using the firm size variable to see its effect on investor demand when the company conducts an IPO. The result of this study is that company size has a positive effect on IPO oversubscription. Based on this, the research hypothesis on firm size indicators is as follows:

**H3: The size of the company affects the IPO oversubscription on the Indonesia Stock Exchange**

**3. RESEARCH METHOD**

**Research methodology**

This research uses a descriptive quantitative research method using secondary data. Sources of secondary data were obtained through the official website of the IDX and the financial statements of companies conducting IPOs.

**Data collection technique**

This study uses a population of all companies that conduct initial public offerings on the Indonesia Stock Exchange, which are 247 companies. The sampling technique in this study was purposive sampling, with the following criteria:

**Table 1. Research Sampling Process**

No.	Description	Quantity
1.	Companies conducting initial public offerings in Indonesia	247
2.	Companies whose prospectuses can be accessed through the official website of the Indonesia Stock Exchange ( <a href="http://www.idx.co.id">www.idx.co.id</a> )	(0)
3.	Companies that do not conduct initial public offerings from July 2020 to August 2021	(196)
Number of samples		51

**Research Methode**

This research uses multiple regression analysis models and classical assumption detection. Multiple regression analysis was conducted to test hypotheses, primarily aiming to investigate the effect of Shariah compliance status and the effect of information asymmetry on investor demand at the time of the initial public offering on the Indonesia Stock Exchange. The regression model in this study analyzes three independent variables and one dependent variable. The equation of the analytical model in this study can be described as follows

$$OSR = \alpha + \beta_1 \text{ Shariah Compliance Status} + \beta_2 \text{ Institutional Ownership} + \beta_3 \text{ Company size} + e \dots \dots \dots (1)$$

Based on this equation, the dependent variable in this study is IPO OSR which is represented by investor demand, with the following equation

$$OSR = \frac{\text{Number of shares requested at IPO} \times 100\%}{\text{Number of shares offered at IPO}} \dots \dots \dots (2)$$

The independent variables in this study are shariah compliance status, institutional ownership, and company size. The variable shariah compliance status is measured using a dummy by giving a score of 1 and 0. A score of 1 is given to companies that pass the sharia screening, and a score of 0 to companies that do not pass the sharia screening. Meanwhile, information asymmetry is determined by two variables, namely institutional ownership and firm size. The institutional ownership variable is measured by the number of investors, institutional investors in this study are measured by the institutional ownership ratio which can be seen in the prospectus, with the following equation:

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$$\text{Rasio INST} = \frac{\text{Total Institutional Ownership}}{\text{Number of shares offered at IPO}} \times 100\% \dots\dots\dots(3)$$

Firm size variable in this study was measured using the natural log of the company's total assets. Natural logs are used in calculating the size of the company to reduce the level of excessive fluctuations in the data. The company size equation is as follows:

$$\text{Company size} = \text{LN (total assets)} \dots\dots\dots (4)$$

### 4. RESULT AND DISCUSSION

#### Descriptive Statistical Analysis

Descriptive analysis according to Sugiyono (2017) is used to analyzedata by describing or describing the collected data. The results of the descriptive analysis in this study are presented in Table 2 below.

**Table 2. Descriptive Statistical Analysis Results**

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std Deviation
<b>LN_Oversubscription</b>	51	0.00	6,10	2,4268	2,08185
<b>Shariah Compliant Status</b>	51	0	1	0,57	0,500
<b>Company size</b>	51	23,4842844	30,7008369	26,6010818	1,728612 36
<b>Institutional ownership</b>	51	0,00%	95,64%	55,0807%	29,08746 %
<b>Valid N (listwise)</b>	51				

Based on Table 2 above, the results of the descriptive statistical analysis in this study are the variable shariah-compliant status which shows an average value of 0.57. The company size variable has an average of 26.6010 or equivalent to Rp. 1,575,153,612,570. The institutional ownership variable has an average of 55,0807%, which means that the average sample company has a share of 55,0807% for institutional investors.

**Table 3. F Test Results**

ANOVA						
Model		Sum of Squares	Df	Mean Square	F	Signifikansi
1	Regression	75,421	3	25,140	8,363	<,001 <sup>b</sup>
	Residual	141,284	47	3,006		
	Total	216,705	50			

a. Dependent Variable : LN\_Oversubscription  
 b. Predictors : (Constant), Institutional ownership, Shariah Compliant Status, Company size

Based on the results of the F test, the results obtained a significance value of <0.001 which is less than 0.05, which means that the independent variable affects the dependent variable simultaneously.

The t-test aims to measure whether an independent variable in a research model has a partial effect on the dependent variable. The results of the F analysis test in this study are presented in Table 4 below.

**Table 4. t-test results**

Coefficients <sup>a</sup>					
Model	Unstandardized Coefficients		Standardized Coefficients		Signifikansi
	B	Std. Error	Beta	T	
(Constant)	20,554	2,848		5,341	<0,001
Shariah Compliant Status	-0,417	0,491	-0,100	-,849	0,400
Company size	-0,715	0,149	-0,594	-2,798	<0,001
Institutional ownership	0,021	0,009	0,289	2,337	0,024

Dependent Variable : LN\_Oversubscription

The results of the t-test on the variable shariah-compliant status did not significantly affect IPO oversubscription on the Indonesia Stock Exchange. The institutional ownership variable has a significant positive effect on IPO oversubscription on the Indonesia Stock Exchange. The firm size variable has a significant negative effect on IPO oversubscription on the Indonesia Stock Exchange.

According to Ghozali (2017), the coefficient of determination aims to measure how far the model's ability to explain variations in the dependent variable is. The results of the F analysis test in this study are presented in Table 4.9 below.



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**Table 5. The Result of the Coefficient of Determination**

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0,590	0,348	0,306	1,73380

The results of the analysis of the coefficient of determination above show the value of the coefficient of determination (Adjusted R Square) of 0.306. The coefficient of determination test in this study can be concluded that the contribution of shariah-compliant status, institutional ownership, and company size to IPO oversubscription is 0.306 or 30.6%, and 69.4% is influenced by other factors not included in this research model.

## **Interpretation of Results Sharia Compliance Status**

This study finds that the variable shariah-compliant status has no effect on IPO oversubscription on the Indonesia Stock Exchange, therefore this study is not in line with research conducted in Muslim-majority countries, namely Malaysia, and Saudi Arabia, and Bangladesh. This is because the number of sharia shares registered for initial public offerings in Indonesia is still small compared to the number of shares on the exchanges of other countries where the majority of the population is Muslim. This is also because the number of foreign investors who invest in the Indonesia Stock Exchange is also quite large. The results of this study are not in line with signal theory, which means that investors do not catch the signal sent by the issuer to investors regarding the values applied by the company. This research is also not in line with the findings of Alqahtani and Boulanouar (2017), Tajuddin et al (2019), and Almansour, (2019) who found that there was an influence between shariah compliance status and IPO oversubscription in the Indonesia Stock Exchange.

## **Institutional Ownership**

In this study, it was found that institutional ownership variables influence IPO oversubscription on the Indonesia Stock Exchange. The results of this study are in line with the Bandwagon theory, which means that potential investors condition their investment decisions based on whether other investors buy/invest. This is because institutional investors can control and supervise the company's work system to avoid abuse of authority by the board of directors and can increase retail investor confidence in the shares of issuers who have just conducted an IPO (Alqahtani and Boulanouar., 2017). This study is in line with the findings of Tajuddin et al (2019) and Alqahtani and Boulanouar (2017). This study is also not in line with the findings of Imamah et al (2019) who found a negative effect between institutional ownership and investor demand.

## **Company Size**

This study found that company size negatively affects IPO oversubscription on the Indonesia Stock Exchange. This is because investors assume that companies that have large total assets tend to set higher retained earnings compared to dividends distributed to shareholders (Nwamaka, 2017). The results of this study are in line with signal theory, which means that investors catch signals from the company regarding the company's prospects. This study is also in line with the findings of Tajuddin et al (2019) and is not inline with the findings of Alqahtani and Boulanouar (2017) who found that there was a negative and significant effect between company size and IPO oversubscription on the Saudi Arabian Exchange.

## **5. CONCLUSION**

This study found that the variable shariah-compliant status did not affect IPO oversubscription on the Indonesia Stock Exchange, while the institutional ownership variable positively affected IPO oversubscription on the Stock Exchange and the firm size variable negatively affected IPO oversubscription on the Indonesia Stock Exchange. provide useful insights for issuers to ensure good subscription of their issuers as these indicators are available in theprospectus. These findings can also help in the decision-making process of investors.

The issuer can develop a strategy by increasing the number of shares owned by the institution in order to foster public investor confidence and to minimize the impact of losses due to the company's shares not being very attractive to the market. Investors in determining whether to invest in companies conducting initial public offerings are expected to consider the amount of ownership by institutional investors because institutional investors can control and supervise the company's work system. In addition, Muslim investors in Indonesia are expected to support Islamic issuers who conduct initial public offerings, to improve the performance of Islamic issuers.

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