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Developments in the Implementation of Corporate Governance in Initial Public Offerings (IPO)

Ratih Prajna Paramita[1]✉, Poppy Dian Indira Kusuma[2]
[1,2]Universitas Jenderal Soedirman.
Correspondence Author: ratih.paramita@mhs.unsoed.ac.id✉

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Abstract: This literature review aims to discuss the impact of effective corporate governance on implementation developments for companies conducting initial public offerings (IPOs) on the Indonesia Stock Exchange. Based on good corporate governance practices in Asia, Indonesia is a low-ranking company, so this study uses 10 variables approved by the Indonesian Ministry of Research and Technology. Good corporate governance variables include committees, independent committees, board of directors, directors, board of directors and independent directors. The test used as a method is a systematic literature search. The results of this study show empirical evidence in a review that the effectiveness of corporate governance has a positive and negative effect on underpricing.

Abstrak: Tinjauan pustaka ini bertujuan untuk membahas dampak tata kelola perusahaan yang efektif terhadap perkembangan pelaksanaan bagi perusahaan yang melakukan penawaran umum saham perdana (IPO) di Bursa Efek Indonesia. Berdasarkan praktik tata kelola perusahaan yang baik di Asia, Indonesia adalah perusahaan dengan peringkat rendah, sehingga penelitian ini menggunakan 10 variabel yang disetujui oleh Kementerian Riset dan Teknologi Indonesia. Variabel tata kelola perusahaan yang baik meliputi komite, komite independen, dewan direktur, direktur, dewan direktur, dan direktur independen. Pengujian yang digunakan sebagai metode adalah pencarian literatur yang sistematis. Hasil penelitian ini menunjukkan bukti empiris secara review bahwa efektifitas corporate governance berpengaruh positif dan negatif terhadap underpricing.

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INTRODUCTION

The company's activities in capital when its shares are referred to as an initial public offering or better known as an Initial Public Offering (IPO). At the time of IPO, a company offers its shares to the general public or potential investors with the aim of obtaining funds (Darmadi et al., 2022). This IPO took place on the stock exchange (primary market). A stock exchange is a market for businesses that want to sell their shares for the first time to investors. After that, investors will make transactions in the secondary market to make a profit. The secondary market is a market that facilitates the trading of securities that are already in the hands of investors. The Company does not get funds from stock buying and selling activities carried out by investors from activities in the secondary market (Sukmawati & Pasaribu, 2017).

To grow their business, business owners should consider alternative ways to change their business structure. One of the

simplest ways to increase one's self-esteem is to sell securities to investors and the general public through the capital markets. The location where the underlying security is first traded is known as a stock exchange or initial public offering (IPO). Once traded on a stock exchange, currencies are traded on the secondary market. Real estate prices are an important factor that affects the company listing process.

Based on these criteria, issuers and underwriters determine the IPO share price. There is a difference in the initial share price between issuers and underwriters, where issuers want to increase the initial share price so that the company can maximize profits from the normal sales process, while underwriters want to reduce the initial share price. To reduce the risk that the securities under consideration will not be able to be resold. The difference in profits can be seen from the increase in the number of companies competing to get investors to buy foreign currency. Where the competition will have an impact on the price of a stock Good corporate governance is one of the requirements for realizing a quality capital market, even corporate governance is also said to be one of the things that change the speed of underpricing in IPOs, because it can cause information asymmetry that can change underpricing. Corporate governance is defined as the structure that a company implements to direct, manage the company to increase shareholder value (Maheshwari & Agrawal, 2015). At the center of attention of stakeholders in almost all stock markets around the world is the implementation of current corporate governance .

The most common problem in the IPO process is undervaluation. According to (Indriani et al., 2020), the average undervaluation of companies that go public in Indonesia is greater than 77%. One company (issuer) reviews the company's prospectus to reduce the risk of underpricing at the beginning of the sale. Undervalued conditions make it difficult for businesses to go public because dividends received from the public are not standardized.

According to the findings of the Asian Corporate Governance Watch survey, Indonesia is the 12th ASEAN country with the highest level of corporate governance. The findings show that the implementation of good corporate governance in Indonesia is quite high, implying that businesses are working hard to improve their internal governance. In the development of business processes, it is very important to increase productivity so that underpricing does not occur when the company decides to go public. According to previous research (Gunawan & Laturette, 2021), as a key component in optimizing specific business performance, supervisory board, independent board, board of directors, and ownership. The findings show that the variables of the supervisory board, independent supervisory director, and executive board negatively affect underpricing; That is, if the number of supervisory boards, independent supervisory directors, and executive boards increases, then underpricing will decrease (Teare, 1990).

While underpricing is not influenced by the secondary variable used by the author, namely the level of commitment. In contrast to research (Santoso & Agoes, 2021), which shows that independent regulatory bodies are not disadvantaged by underpricing. Our research (Irawan & Pangestuti, 2015) shows that employee attitudes have a positive and significant effect on underpricing (Feng et al., 2018). The existence of a research gap motivates researchers to conduct new literature reviews. In this study, the author emphasizes the importance of independent institutions and leadership as success factors for a business. The following literature study examines the effectiveness of good substitute businesses that are often used to improve performance in the context of performance in Indonesia. The research method used in this study is exploratory research, which describes excellent corporate governance and relates it to underpricing. The articles used are relevant articles dated between 2014 and 2022 and sourced from reliable sources such as Jurnal Sinta. Where the results of the literature review are used to determine the influence of corporate governance variables on underpricing in business (Yin et al., 2015).

METHODS

This study only collected journal data from academic publications. There are studies that are not carried out because the methods and variables used by the company are not suitable for use in other studies.

The result of the electronic shopping system is 20 articles that have been published. The most frequently cited journals are those dealing with economics, law, and management. According to publication date, the most popular articles from 2022 are from 2014 to 2022. Then, after receiving the journal, the researchers studied and compared it with the journal used in determining corporate governance variables to be used in future research. The corporate governance variables used are supervisory board, independent supervisory board, board of directors, concentration of ownership, institutional ownership, and independent as drivers. Researchers collect information related to that variable, as well as draw conclusions from all data found, and draw conclusions from all data found. Researchers report that the review is carried out with the journal search stage for the place of publication of literature studies that have been carried out after conducting a review. After finding a suitable journal, students communicate with it to perfect the research design as well as the collection of scientific papers. After submission, literature recognition is assessed by peer review of the target journal to see the feasibility of the literature.

RESULTS AND DISCUSSION

The purpose of this study is to study how effective corporate governance variables can affect underpricing. The board of commissioners, independent board of commissioners, board of directors, concentration of ownership, institutional ownership, and independent directors are variables that are widely used to measure excellent corporate governance from research reference sources.

Board of Commissioners

According to KNKG (2006), the Board of Commissioners has the responsibility to advise and inform the Director, as well as determine whether the company's management uses good business practices.

Independent Commissioner

Independent Commissioners are members of the board of commissioners who do not have ties that can affect their authority to act independently (Hanafi & Halim, 2009). Monitoring work performance around controlling the issuer's financial problems to not harm the company and avoid financial difficulties is one of the independent commissioners in a company. Independent commissioners in the company can be seen from the implementation of good corporate governance. If management in an enterprise is ineffective, the number of independent contractors will decrease. However, the function of independent commissions is no longer running due to situations that require independent commissions in each company to reduce the amount of work that has been done (Revida et al., 2022). This shows that independent commissions have not been recognized as effective governance mechanisms.

Board of Directors

(Djerbi & Anis, 2015) The Board of Directors is a company that ensures the schemes and policies to be chosen by the company. Wisdom or strategy will make the success of a company that will be taken by the role of company director for the long or short term. In accordance (Maria & Yuniawan, 2016), compared to the existence of an independent commissioner, what can be more effective is the role and supervisory duties carried out by the director, it is because the independent commissioner is responsible for formulating policies and supervising the actions of the board of directors, as well as providing advice to the director. Companies that require consideration from the board of directors are low-cost, the small capacity of low-cost companies is influenced by a large board of directors.

Expansion companies require special decision-making costs and the size of the board of directors has little effect on the oversight process. (Gunawan & Laturette, 2021) However, if the CEO does not do a better job of managing the company, the company will face a higher price because the CEO is still

in charge of the company's management, which has problems with control and coordination (Kurniawan et al., 2019). It is impossible to sew. However, many executives can reduce the likelihood of price increases in the workplace due to increased productivity.

Concentration of Ownership

The ownership owned by investors is at least 20% of all outstanding shares (Dang & Jolly, 2017) The principle of growth has become increasingly difficult as a result of the rapid development of organizational structures designed to give the majority of investors greater access to company data and reduce the risk of business failure (SEPTIAN, 2016).

Institutional Ownership

One way of corporate governance is to form institutions that can reduce the gap between business owners and managers by ensuring there is no conflict of interest between them so that the company does not suffer financial losses. (Sasongko & Juliarto, 2014) said that many shares of public companies are handled by individuals who have high institutional ownership, which can gradually improve managerial performance and reduce undervaluation. The performance of the company will affect the greater institutional ownership, votes and incentives from the supervision and management of the company, so that the company is more efficient when using company assets, therefore the potential for lower prices will be reduced because institutionally owned companies increasingly demonstrate their ability to oversee management. When there is institutionalization within the company, information must be communicated clearly and concisely to important parties (Badru & Ahmad-Zaluki, 2018). However, minimal employment does not contribute to large institutional share gains, resulting in higher institutional share prices. (Irawan & Pangestuti, 2015). This can cause the amount of money the company receives to remain the same as a result of the institutionalization of that company (Alexander et al., 2013).

Independent Director

The importance of independent directors for companies that are considered to minimize agency problems. In research (Alqatan et al., 2020) independent directors are directors who do not have any affiliation to be independent and can monitor policies taken by company directors and reduce policies that lead to company interests. some. People. Thus, the consequences of such policies will not harm the company. But in reality (Alqatan et al., 2020) states that many companies do not have independent directors, where management tends to run policies independently that allow them to make profits without considering losses. is being experienced by the company is growing. long. This can increase the downside risk in the company. Therefore, the existence of an independent director in the company does not mean that it can improve the company's performance. The position of independent director in the company is only for fulfillment of requirements and is less formal (Alqatan et al., 2020).

CONCLUSION

Based on a literature study that has been conducted using six independent variables of good corporate governance in underpricing, it can be concluded that good corporate governance has a positive and negative effect on underpricing. The variables that measure undervaluation are the board of commissioners, independent board of commissioners, board of directors, concentration of ownership, institutional ownership, and independent directors.

The Board of Commissioners negatively affects low pricing, meaning that if the number of members of the Board of Commissioners increases and the ROA is high, it can reduce prices. Independent commissioners do not guarantee that the company will avoid undervaluation, this happens because independent commissioners in the company only meet the provisions that the company should have, so the work of independent commissioners cannot be carried out properly.

But an independent commissioner could reduce the possibility of undercutting. Institutional ownership has no effect on low prices. The low cost of the board of directors has a negative impact, where the board of directors considers the company to be

experiencing low costs. If the size of the advisory board is small, the effect on low costs is also small.

Directors are proven to reduce the risk of undervaluation due to greater supervision by directors in the company. The following research can be further developed, as the evidence uses a much longer timeframe that does not describe the current situation. In addition, the variables of good corporate governance are still diverse, it can be said that the variables used today have not been fully proven to be effective at low cost. Finally, future research can use reference articles from international journals, not only from Indonesia so that there is a diversity of data analyzed.

Property ownership has a positive and significant effect on lower costs. Measuring institutional ownership through the proportion of shares owned by institutions such as manufacturing companies proves that two studies of manufacturing companies with data from IDX financial statements show that institutional ownership does not guarantee that companies have better financial performance to avoid underpricing, but institutional ownership can help companies reduce the phenomenon of underpricing.

Independent directors do not affect underpricing, although independent directors must be able to mitigate the phenomenon of underpricing. This is because there are independent commissioners in the company only for fulfillment of requirements and more or less for formal purposes and in fact there are still many companies that do not have independent directors so that the risk of undervalued increases. The audit committee has a positive effect on low costs.

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