

CHAPTER 5

CONCLUSION AND RECOMMENDATION

5.1 Conclusion

This paper investigates the difference performance in marketing method in Indonesian IPO market. Fixed price marketing method has been pre-dominantly used in Indonesia. Book building marketing method has been allowed since 2000, however Indonesia started to use book building marketing method in 2007. Since the introduction, usage of book building marketing method has a sharp increase of 77% from 2007 to 2010

The main aim of this study is to investigate the market performance difference in the short and long run performance of book building marketing method and fixed price marketing method. Moreover, this study also examine whether specific companies' characteristic affects the likelihood of the marketing method chosen.

Analysis for IPO performance has a sample of 74 companies, from 2007 to 2010. Within the short run market performance, two different initial returns have been used for measurement: IR1 and IR5. Both fixed price and book built offerings are significantly underpriced in IR1 and IR5. However, further analysis shows that there is no significant difference in IR1 and IR5 between book built and fixed price offerings. Therefore, it could be concluded that short run market performance is not significantly influenced by the marketing methods that the issuer have chosen.

Unlike the short-run performance, mixed results are found in the long run performance analysis. Ritter (1991) believed that most IPOs are underperformed in the long run, for every dollar invested; investor received 83 cents in return. Both

book built and fixed price offerings, has outperformed the market since they generates positive market adjusted return. Further analysis shows that there is a significant difference between book built and fixed price offerings. BHAR measurement is significantly influenced by the marketing method in processing the IPO. Therefore, it could be concluded that long run performance is significantly influenced by the marketing methods that the issuer have chosen. Table 5.1 below summarizes the result for the first research problem.

Table 5.1 – Summary of IPO Performance Analysis

This table summarizes the statistics tests of the IPO Performance Analysis in short run and long run performance

Time Horizon	Measures	Results
Short Run Performance	IR1 IR5	No different market performance in day 1 and day 5 between the marketing methods.
Long Run Performance	CAR BHAR	No different in 1-year market performance after IPO between marketing methods. There is significant difference in 1-year market performance after IPO between marketing methods.

Based on this paper analysis for IPO characteristics, with a sample of 72 companies, from 2007 to 2010, the author find that a large number of companies have chosen book building marketing method rather than fixed price marketing method. Due to

the increasing popularity of book building marketing method, the author has investigated the characteristic of firms that may influence the choice of marketing method aiming for reducing information asymmetry. The five factors that have been analyzed in this study are size, age, industry, ownership and risk

According to Hosmer-Lemeshow test, the model is a good fit in predicting the marketing method based on the issuer's characteristics. The model used in this paper is valid due to the strong theory background of reducing information asymmetry by choosing book building marketing method. However, due to the small sample of data, the model is empirically not valid.

The logistic regression results shows there are no significant relationship between size, age, industry, ownership and risk of the firms in choosing the marketing method. Therefore it could be concluded that firm's characteristics in terms of size, age, industry, ownership and risk does not influence the choice of marketing method.

Based on the findings, it appears that when a company chose book building marketing method, it is not aimed to reduce information asymmetry to the public. According to Shiller (1990), IPO market is subjected to trends. Prior research show that hype (Degeorge *et al*, 2007), investor's demand (Busaba, 2006) and volatility of capital market (Busaba, 2006) might be the major factors in choosing book building marketing method.

The time span that was taken for the sample could be a reason why book building has been gaining popularity. Busaba (2006) believed that issuers would choose book building marketing method at times when the volatility of stock value has increased. In 2007, there were only 3 book built offerings, however when the financial crisis hit

United States of America, which has impacted Indonesian Capital Market, usage of book building marketing method has increased.

5.2 Limitations

In the process of the research, the author faces several limitation, such as unavailability of data, observation time period and time constraint.

The author has to exclude some samples due to unavailability of data (prospectus, share price, and financial statements) in the Indonesian Stock Exchange's database, Bursa BEJ and Index BEJ on Binus International Library. The author has tried to find in different reliable sources such as Yahoo! Finance, Bloomberg and issuer's official website to acquire the data needed. However, some data are unable to be found.

This research paper time period started when Indonesian issuers started to use book building marketing method. Book built offering starts in 2007. Therefore the time period may be too short since it is only 4 years of data for the short run performance analysis and only one year period for the long run performance analysis. However, this short time of period did not reduce the validity of data since the time period is applicable in Indonesian Capital Market.

The author has a limited time in conducting her research. This time constraints has limit her from conducting extra analysis that might enhance the contribution of the thesis.

5.3 Recommendations

Based on the findings of the results, there are some recommendation that will be addressed to investors, issuers and investment bankers.

Investors should focus on the long-term strategy in buying book built IPOs. Investors should mimic the trading behavior of BHAR measurement where investors buys book built IPOs in the initial market trading day and hold it for one year, or longer period of time. Mimicking BHAR measurement could be beneficial to investors since it shows significant difference in the return between book building offering and fixed price offerings, where book built IPOs generates higher return.

Issuers and investment banker should consider the information that will be included in prospectus. Large quantity of information in prospectus increases the complexity of the information (Edmund & Morris, 2000). The quantity of information given by the company to investors through prospectus might be great, however the qualities of information are uncertain. Issuers and investment bankers should filter the types of information that will be included in prospectus. It should be complete, concise, and relevant.

5.4 Avenue for Further Research

This study could be extended by other researchers, fellow students or academians. There are some recommendation that can be taken under consideration in the future, such as, extending period of time of the research, investors and underwriters behaviour, quantity and quality of prospectus and hype of book building marketing method.

For further research, extension of the time period for long run performance is important to gain a deeper understanding of book built IPOs performance. Due to the sample period of time, this paper is able to compare one-year long run performance for IPOs offered in 2007, 2008 and 2009. In the future research, long run performance could be extended to 3 or 5 years since prior research (Ritter, 1991) finds that IPO underperformance occurs 3 years after IPO.

Based on the findings above, reducing information asymmetry does not affect the choice of marketing method. Further research could study the investor's behavior in their demand of book building marketing method and underwriter's behavior in recommending the marketing method.

This paper used size, age, industry and ownership as a proxy to measure information asymmetry. In the future, a better proxy to measure information asymmetry could be used, by measuring the quantity and the quality of information in the company's prospectus.

Last recommendation for further research is to test the hype in the popularity of book building marketing method. When book building marketing method was introduced in Indonesia and other countries all over the world, the previous marketing method seems to have extinct. Researching the hype of book building could explain the real reason of its popularity.