General Bank's Profitability Analysis on The Impact of Going Public Process

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***Abstract*—Various reasons underlying the company's owner to Go Public processes such as increasing the company's capital, diversifying shares, overcoming lending constraints. Whatever the underlying reasons, Go Public decisions always have an impact on the company's finances and operations. There is a possibility for companies to not be able to manage funds from the Go Public process, causing a surplus of equity and an impact on decreasing company performance. This research was conducted to determine the impact of Going Public on company performance in terms of profitability. This study uses a purposive sampling technique to produce 3 sample banks that conduct an IPO in the period 2009- 2012 with the BOOK Bank category 2. Post-Go Public company performance is analyzed in terms of profitability using the financial ratios of Net Profit Margin (NPM) and Gross Profit Margin (GPM). Hypothesis testing in the form of a paired t test was conducted on Net Profit Margin (NPM) and Gross Profit Margin (GPM) for the period of 4 years before and after going Public. The results of this study are expected to find out whether the process of Going Public has an impact on company profitability. In addition, the company's ability to perform cost efficiency can be measured through the use of the ratio of Net Profit Margin (NPM) and Gross Profit Margin (GPM).**

***Key words*—Go Public, Gross Profit Margin (GPM), Net Profit Margin (NPM), and Profitability.**

I. INTRODUCTION

INITIAL Public Offering (IPO) is an important moment in the development of the company and the owners of the company have different motives when deciding to start trading public shares. Some of the reasons underlying the desire of Go Public are the desire to increase company capital and to change the welfare of company owners into a more liquid form, namely in the form of shares. Some non-financial reasons such as increasing company publicity have only a small role in IPO decisions.

Whatever the motive, Go Public decisions always have an impact on the company's finances and operations. If a company collects more capital to finance the planned investment, then there is a possibility for the company to not be ready to use a larger amount of funds for investment decisions. Such a situation can result in a surplus of equity and have an impact on the company's performance which has decreased which is expressed by a low profitability ratio.

Profitability is the company's ability to generate profits from the company's operational activities. For profit-oriented companies, the profitability ratio is an important factor for several parties including investors. The higher the level of profits or profits generated, the higher the profitability ratio.

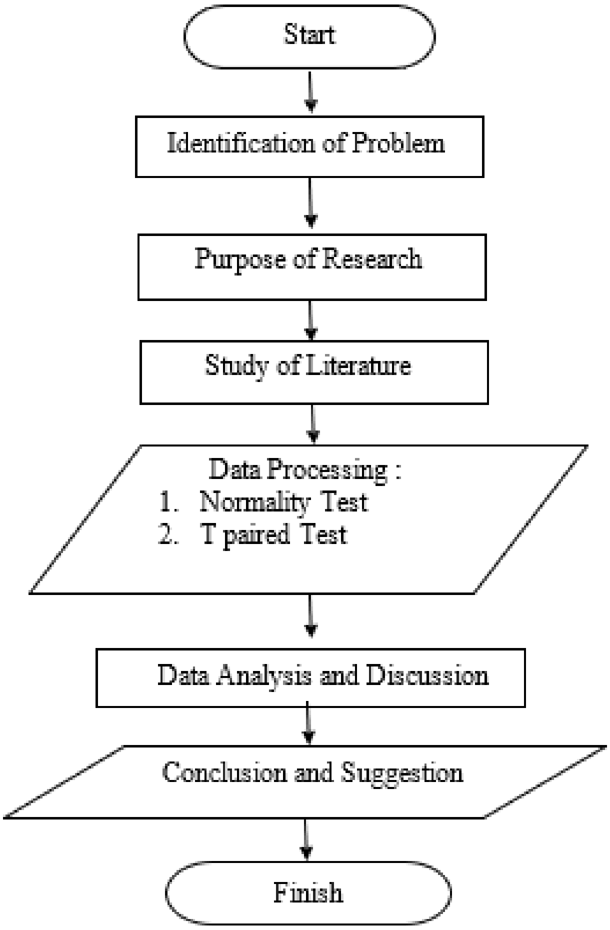

Figure 1. The Reserch Flowchart.

This phenomenon focuses on company performance after going public. Several studies explain the phenomena associated with lower performance in companies after going public. Worse company performance after going public was reported by Pastusiak et al., (2016). Company profitability before and after the IPO is measured using the financial ratios of ROE and ROA. The results obtained by the company's profitability in the 1 year before the IPO are better than 1 year after the IPO. Pastusiak then linked the decline in profitability to the presence of windows dressing, where the company had a tendency to improve its pre-IPO financial performance reports. The poor performance of companies post-IPO was also reported by Yaakub et al., (2018).

Yaakub found that lower performance after the IPO was found on the Malaysian stock market. The company generally performed better after 36 months after the IPO. In addition, the type of business sector also influences

Table 1.
NPM data for a period of 4 years before and after going public.

	NPM							
Bank name	-4	-3	-2	-1	1	2	3	4
BTN	.13	0.08	.10	0.09	.13	0.14	.15	0.14
BJB	0.12	0.14	.17	.17	.15	.17	.16	0.12
Bank Jatim	0.23	.24	0.30	0.29	.22	.21	.18	0.20
NPM total	0.48	0.46	0.57	0.55	0.50	0.52	0.49	0.46
Average NPM	.16	.15	.19	.18	.17	.17	.16	.15

Table 2.
GPM data for a period of 4 years before and after going public.

	GPM							
Bank name	-4	-3	-2	-1	1	2	3	4
BTN	0.14	0.12	0.14	0.14	.18	.19	0.20	.18
BJB	0.20	.21	0.25	0.23	.21	0.20	0.20	.15
Bank Jatim	0.33	0.38	0.41	0.40	0.30	0.30	.24	.28
NPM total	.67	0.71	0.80	.77	0.69	0.69	0.64	0.61
Average GPM	.22	.24	0.27	0.26	0.23	0.23	.21	0.20

the company's performance after the IPO.Pastusiak, (2016) in another study, trying to compare the financial performance of private and public companies in Poland related to Go Public decisions. The analysis results obtained lead to the conclusion that private companies in Poland outperformwell after the Go Public process. According to the authors, company size also influences company performance. Medium companies have a better performance after the process of going public compared to large companies.

A different phenomenon is revealed by D'souza, Megginson and Nash. D'souza, Megginson and Nash concluded that after privatization there was a significant increase in profitability, output, and sales results.The same thing was expressed by Maina (2015) in his research on the company's financial performance before and after Go Public in terms of profitability, liquidity, and leverage. The results obtained for 14 companies listed on the Nairobi Stock, the level of profitability, liquidity, and overall leverage increased after the IPO.

The purpose of this research is to conduct a comparative analysis of profitability before and after the Go Public process. The financial ratios used are Net Profit Margin (NPM) and Gross Profit Margin (GPM). Net Profit Margin (NPM) and Gross Profit Margin (GPM) are profitability analyzes that can be used to determine the company's ability to manage funds obtained from the Go Public process. Funds from the Go Public process are managed to increase operational income from banks. The increase in operating income is expected to have an impact on the profits derived by the company. Besides aiming to determine the company's ability to manage Go Public funds, the ratio of NPM and GPM can be used to determine the cost efficiency of the company.

II. METHOD

A. Samples and Data

The sample in this study is a bank that went public in 2009-2012, with the selected sample criteria being a bank in the BOOK category 2. There are 3 sample banks that meet these criteria, including BTN, BJB, and Bank Jatim. The data in this study are secondary data obtained from financial statements published by each bank. Profitability analysis used is the ratio of NPM and GPM. Data from the financial statements are processed in order to obtain the value of the ratio of NPM and GPM, using the following formula:

$$NPM = \frac{\text{Net Income}}{\text{Operating Income}} \times 100\% \quad (1)$$

$$GPM = \frac{\text{Operational Profit}}{\text{Operating Income}} \times 100\% \quad (2)$$

The NPM and GPM ratio values are calculated annually with the time period required is 4 years before and 4 years after the Go Public process. The research flowchart can be seen in Figure 1.

B. Data analysis

NPM and GPM data from each sample is calculated on average per year in the period of 4 years before and after going Public. The results obtained are the average value of NPM and GPM from each sample which is then analyzed using the hypothesis test, the paired t test. The analysis begins with a normality test, as a condition of conducting a paired t-test analysis.

Table 3.
NPM and GPM normality test results before and after going public.

	Kolmogorov-Smirnova			Shapiro-Wilk		
	Statistics	df	Sig.	Statistics	df	Sig.
NPMbeforeGoPublic	, 208	4	.	, 950	4	, 714
NPMafterGoPublic	, 283	4	.	, 863	4	, 272
GPMbeforeGoPublic	, 214	4	.	, 963	4	, 798
GPMafterGoPublic	, 298	4	.	, 849	4	, 224

III. RESULTS AND DISCUSSION

The results of data processing namely Net Profit Margin (NPM) and Gross Profit Margin (GPM) data are presented in Table 1 And Table 2.

A. Normality test

This study uses the Shapiro Wilk test as a normality test. The Shapiro Wilk test is generally used for samples with small amounts (<30 data). The results of the Shapiro Wilk test were processed through SPSS and are presented in Table 3.

Based on the output obtained, the Sig value for NPM data before going Public is 0.714 and the Sig value for NPM data after going Public is 0.272. The basis of decision making in Shapiro Wilk normality test is if the Sig value> 0.05 then the data is normally distributed. Both groups have Sig values > 0.05 so that it can be concluded that NPM data before and after Go Public is normally distributed. The same thing also happened in the GPM data group in the period before and after Go Public, the Sig value of the two data groups > 0.05 so that it can be concluded that the GPM data before and after Go Public is normally distributed.

B. Gross Profit Margin (GPM)

The hypothesis of this research is as follows:

Table 4.
Paired t test for GPM data

	Paired Differences							
	The mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference Lower	Upper	t	df	Sig. (2-tailed)
GPMbeforeGoPublic – GPMafterGoPublic	, 03000	, 00816	, 00408	, 01701	, 04299	7,348	3	005

Table 5.
Paired t test for NPM data

	Paired Differences							
	The mean	Std. Deviation	Std. Error The mean	95% Confidence Interval of the Difference Lower	Upper	T	df	Sig. (2-tailed)
NPMbeforeGoPublic NPMafter GoPublic	, 00750	, 01258	, 00629	-, 01252	, 02752	1,192	3	, 319

- Ho : there is no difference between profitability before and after Go Public based on GPM measurements.
- Ha : profitability based on the measurement of GPM after the Go Public process has increased better than before the Go Public process.

In Table 4 show a paired t-tests were performed using the SPSS statistical program and obtained.

Because the significance used is 1-tailed, the value becomes 0.0025 and has a smaller value compared to 0.05 so Ho is rejected. Profitability expressed by the GPM ratio in the period after Go Public has a better performance compared to after the Go Public process. GPM shows the company's ability to manage revenues and costs associated with its operational activities. Through the financial statements of each sample, we can observe that the operating income of each bank sample experienced a significant increase after going public. Increasing operating income accompanied by the company's ability to perform cost efficiency will have an impact on increasing operating profit.

C. Net Profit Margin (NPM)

The hypothesis of this research is as follows:

a. Ho : there is no difference between profitability before and after Go Public based on Net Profit Margin (NPM) measurements.
b. Ha : there is a difference between profitability before and after Go Public based on Net Profit Margin (NPM) measurements.

In Table 5 show a paired t-tests were performed using the SPSS statistical program and obtained.

Because the value of sig > 0.05, Ho is accepted. Profitability that is based on Net Profit Margin (NPM) measurements in the period before and after the Go Public process has no difference. The Go Public Process is considered to have not been able to provide a better performance change in terms of profitability expressed in the Net Profit Margin (NPM) ratio in a period of 4 years.

Net Profit Margin stated the company's ability to generate net income related to operational activities carried out. The amount of non-operational income, non-operational costs, and taxation can result in a different amount of net income or net profit on the company's operating profit. Conditions where Net Profit Margin (NPM) before and after the Go Public process do not experience differences, can be observed in the financial statements of each bank. BTN for example, in the period of 4 years before going Public, BTN was only charged with a smaller amount of Pph compared to the years afterwards related to the existence of the deferred tax ownedby BTN. The small value of the tax charged will certainly affect the value of net income which is getting bigger in the period before going Public. The inability of BTN to carry out cost efficiency can also be observed in the first year after going Public. The amount of non-operational costs affect the value of the resulting net profit.

IV. CONCLUSION

Based on the research conducted, the following conclusions are obtained: (1) Based on the analysis using the Gross Profit Margin (GPM) ratio, it can be seen that there are significant differences in the profitability of the company before and after the Go Public process. In addition, based on a paired t test conducted on the Gross Profit Margin (GPM) ratio, information was obtained that there was an increase in company performance after the Go Public process. Improved company performance is related to the company's ability to manage its operational activities. (b) Different results are shown by the results of the analysis using the Net Profit Margin (NPM) ratio. The results of the paired t test conducted on the Net Profit Margin (NPM) ratio showed that there were no differences in performance in the period before and after the Go Public process. The absence of these differences is related to the company's inability to carry out non-operational cost efficiency of the company. In addition, the existence of deferred tax also affects the value of the resulting net profit.

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