EMPIRICAL INVESTIGATION ON THE USE OF GRAPHS IN IPO PROSPECTUS: EVIDENCE FROM INDONESIA

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Abstract

Objectives This thesis is aimed to investigate the use and abuse of graphs in Indonesian IPO prospectuses. Particularly, it focuses upon investigation on the use of key financial variables (KFV) graphs and distortion in those graphs. The author aims to provide fresh insights regarding the distortion of financial graphs in Indonesia, as there are currently no literatures regarding the use and abuse of graph in Indonesian IPO prospectuses.

Method The sample consists of 162 Indonesian IPO prospectuses, which ranging in terms of industries presented in Indonesia Stock Exchange during 2000 - 2009. Data collection is done by extracting relevant information from company’s IPO prospectuses. Two hypotheses were developed in this research and analyzed using chi-squared and binomial tests.

Results The result shows that there is a significant positive relationship between the presence of KFV graphs and company performance. “Good” companies tend to use more KFV graphs in their prospectuses. Regarding distortion, favorable distortion found as likely used as unfavorable distortion in both graphs with “increasing” and “decreasing” performance.

Conclusion This research concludes that the better the company performance, the larger number of KFV graphs are used. There are no impression management through KFV graph distortion in Indonesian IPO prospectuses occured.

Key words
Initial Public Offering (IPO), prospectus, graph, distortion, impression management, relative graph discrepancy (RGD), key financial variables (KFV)