

## The Influence of Company Age on the Firm's Performance: IPO Empirical Study from Indonesia Stock Exchange during 2019

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**Abstract.** Company scale becomes essential for stakeholders', which larger (and/or older) firms are more profitable than their smaller company has been in numerous researchers' interest for decades. This research will give empirical evidence of the company age in Indonesia Stock Exchange who circumstances Initial Public Offerings (IPO) in 2019 towards the Firm's Performance. This research is a type of causality and uses a quantitative approach. The sampling involved 55 companies conducting IPO during 2019 as a population. This research assesses a firm's performance with return on assets (ROA) proxy thru a statistical inferential, i.e., simple regression linear analysis in data analysis. The following proceeds are obtained: (1) Company Age did not influence the Firm's Performance significantly implication; and (2) The firm's Performance antecedent only impacts from contribution Company Age by 2,04 percent.

**Key words:** company age, firm's performance, return on assets.

### Introduction

Company scale becomes essential for stakeholders', which larger (and/or older) firms are more profitable than their smaller company has been in numerous researchers' interest for decades. Large amounts of academic as well as empirical research in multi-disciplines (economics, strategic management, finance) have been conducted to demystify this link (Pervan et al., 2017: 1). Company scale may utilize of firm's age or firm's size measurement. This perception is considered through several components for quantifying a firm's performance, especially in firms listed in a country's stock exchange. While the firm's performance so far still relying on proxies of return, profit, Tobin's Q index, PBV, MPV, etc., for stakeholders. Although some theoretical explanations regarding the higher/lower level of profitability achieved by older firms are offered, no clear cut exists due to the scarcity of empirical research.

One possible reason for fewer studies on this topic founded specifically. Many researchers had been put into the function of a firm's age as a mediating or moderating in predict or forecast imply a factor. The empirical evidence that becomes the findings include: (1) LiPuma et al. (2011: 817-841) research discussed the impact of institutional quality on firm export performance in emerging economies with the contingency model of firm age and size. The firm's age had functioned as a moderating variable through the World Bank's World Business Environment Survey (WBES) data. The Organisation for Economic Cooperation and Development (OECD) involves more than 10,000 firms in 81 developed and emerging economies in six geographic regions: Africa, the Middle East/Northern Africa, central/ eastern Europe, East Asia, South Asia, and Latin America. This finding recommends that new firms' export performance is more strongly related to improvements in access to finance than for established firms. (2) Hui et al. (2013) research from Malaysia, Taiwan, and China data study discussed the impact of organizational innovation and organizational learning towards organizational performance are functioning with the firm age moderated. The data collection period is

held between October 2012 and February 2013 and distributed betwixt 650 disordered take-ups from Food Manufacturing. Senior manager, CEO, or director manager, were chosen as the key informants. Solely 168 Food manufacturing companies returned the questionnaire. Data analysis with structural equation modeling (SEM). Firm age, which controls betwixt the relationship organizational innovation and organizational learning towards organizational performance. (3) Ismail and Jenatabadi (2014: 212-224) research from Malaysia discussed how airline performance depends on the economic situation and internal operation involve 30 airline companies from the Asia Pacific region. The data collection period is during 2004-2015. This finding recommends that firm experience or age could aid in the linkage betwixt the constructs as a control variable; thus, this measurement acts as a moderator in the research model. (4) Pervan et al. (2017: 1-9) research from Food Industry in Croatia discussed how age and firm performance involve 956 firms. The data collection period is during 2004-2015. The finding recommends showed that age negatively impacts a firm's performance. Besides the firm's age, other firms- particular factors affecting firms' profitability include size, liquidity, and solvency. (5) Kieschnick and Moussawi's (2018: 597-614) research discussed the impact of firm age, corporate governance, and capital structure of selecting. The firm's age utilizes years since founding, CRSP, and on Compustat measurement. The finding recommends that firm age impacts how much debt a firm uses is formerly appropriate to the interplay betwixt firm age and its governance features.

Since the implementation of Industry 4.0 in developing economies, the global report and working paper since such as McKinsey and Company, Deloitte, etc. five last years have a shred of evidence that was implementing a revolution industry can be a good prospect for investors to pick in business decisions to reach the firm's value (Sarwani and Husain, 2021: 83-95). Hereinafter, from empirical evidence in Indonesian Stock Exchange (conducting IPO) at a certain period be highlighted stakeholders' will the enterprise because the company explicitly states to sell its equity to the public at a substantial percentage, where the circumstance of IPO Companies amount of 55 enterprises in 2019 according to from the <https://www.idx.co.id/> (Husain and Syniuta, 2020: 1-7). Besides, the possibility to panicked investors caused by the financial crisis will withdraw from the stock market entirely or move their money to what they perceive as a high-quality firm (Pasupati, 2020: 1-12). Firms that raise capital in the IPO generally exhibit higher growth rates in assets after the IPO than their non-capital raising peers, but firms also use new funds for reducing leverage (Bancel and Mittoo, 2009: 1-53). This research gap is the firm's age in Food, Manufacturing, and Airline companies and another. Functioning firm's age as a non-independent variable from prior research. This study use company age as an independent variable and utilizing focus in conducting IPO firms in 2019. This study's importance is conducted to provide an overview of business performance as decision-making based on the company's age whether it has empirically significant results with return on assets (ROA proxy).

### **Theoretical Framework and Hypothesis Statement**

Compliance theory adopted from Tayler (1990) explains the importance of an individual's behavior towards compliance. Lunenburg (2012) defines a structural approach to organization that integrates ideas from classical models and management participation. This theory concerning one of the firm's performance refers to the attachment to the Decree of the Chairman of Bapepam Number KEP-346 / BL / 2011 dated July 5, 2011, regarding the obligation to submit Periodic Reports of Issuers or Public Companies.

The age of the company shows the existence of the company in competition with other companies. Firm age quantifies alternatively as the number of years (plus one) elapsed since the company's IPO year (listing age) and the number of years (plus one) elapsed since the year of incorporation (incorporation age) (Loderer et al., 2010: 1-53). Firms age is the number of years passed from the company's foundation and firm size as the number of employees, part-time or full time, of the company (Hui et al., 2013). Hereinafter, Firm age plays a role in a way that it represents the experience of a firm's (Ismail and Jenatabadi, 2014: 212-224). Firm age can measure as the time between the initial creation of a firm and the present time (in years). Besides, firm age is the time between its going public and the present time (also in years) (Kieschnick and Moussawi, 2018: 597-614).

Brigham and Houston (2015) stated that a firm's value could be elucidated as the current worth of presuming free cash flow computed a balanced on the regular cost of capital. The firm's performance score can calculate exert the ratio information toward market value viz. the price-to-earnings ratio (PER), price/cash flow ratio (PCFR), the price-to-book value (PBV) ratio, and market-book ratio (MBR) (Sarwani and Husain, 2021: 83-95). In describing business attractiveness, profitability ratios can be used to measure company returns, such as return on assets (ROA), besides return on equity (ROE) and return on sales (ROS) (Anna, 2015: 151-161). ROA proxy is quantified by divide the net income after tax with total assets (Gitman and Zutter, 2015: 81).

According to the background, including the previous study, company age's importance is linked to a firm's performance. The research model must then be estimated with the best approach to describe reality, the criteria for determining whether the equation model's estimation is per the theory being tested (Ghozali and Ratmono, 2017: 7). This study continues to re-verify a conceptual model and hypothesis alternative testing figure 1 as follows: The research model is designed as follows:

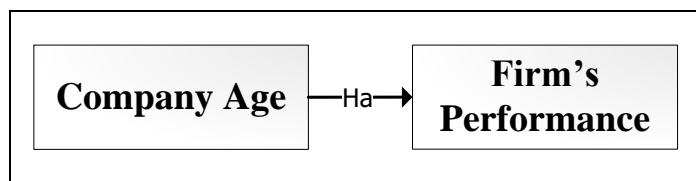


Fig 1. Research Model. Source: Designed by Author's (2021)

Answer to the research objective, the following alternative hypothesis is formulated:

H<sub>0</sub>: There is no influence of Company Age, and Firm's Performance is significantly implication.

H<sub>a</sub>: There is an influence of Company Age, and Firm's Performance is significantly implication.

**Research Methods**

This research is a type of causality to test the hypothesis about the influence of one or several variables (independent variable) on other variables or dependent variables (Losh, 2017). This research is also using a quantitative approach based on constructivism. The objectives prove empirically the research objectives that can clarify the object's description understudy and the story, and a conclusion can be about the problem under study (Goundar, 2012: 16). Operationalization of this instrument research as follows:

1. *Company Age* (X)

Company age is the difference between the closing date (December 31<sup>th</sup>, 2019) and

the company founded in this research, which results calculated in the shape of a logarithm natural (Ln).

2. Firm's Performance (Y)

The ROA proxies are related to the function of management's general effectiveness in reaching the firm's performance in this research. This ratio is calculating as follows (Gitman and Zutter, 2015: 81):

$$ROA = \frac{\bar{Net\ Income}}{\bar{Total\ Asset}}$$

The study deal with the time round in 2019, which company circumstance of Initial Public Offerings (IPO). The final sampling involved 55 firms at Indonesia Stock Exchange (IDX) as a population. This study's data collection methods are documentation literature from the IDX website and Indonesia Capital Market Directory (ICMD) report. Data analysis simplifies data into a form that is easier to read and interpret become modeling makes utilize of simple linear regression. The model is defined as built-up thru definite parameters that are fathomed into form, structure, number, content, and meaning with boundaries (Husain, 2019). Simple linear regression is a statistical method that allows us to summarize and study relationships between two continuous (quantitative) variables (Penn State Science, 2018). In science, to analyze data, this research assesses to measure firm's performance use a statistical inferential, i.e., with formulated viz.:

$$Y = \alpha + \beta X + e$$

where:

Y = Firm's Performance

α = Constant

β = Coefficient of the Company Age (X)

e = error term

**Results**

The descriptive statistic interval score proceeds could viewed as follows:

Table 1. The Descriptive Statistic

	Statistic Scores			
	Min	Max	Mean	Deviation
Company Age (in years, (divided 365 days)	3.74	64.67	17.4006	12.58224
Ln_Company Age	7.218910	10.069256	8.53369152	0.66871
Return On Assets (ROA)	-0.1008	0.1597	0.024279	0.04855
<i>Source: Author's Elaborate (2021)</i>				

Table 1 above shows the minimum and maximum Company Age score about betwixt 3.74 until 64.67 years with a mean score of 17.4006 years. Company Age with logarithm natural point has the minimum and maximum score betwixt 7.218910 until 10.069256 with a mean score of 8.53369152 points. The firm's Performance with Return on Assets (ROA) proxy has the minimum and maximum score betwixt minus 10.08 until

15.97 percent, with a mean score of 2.4279 percent; it means that the return on assets which became of this sample, i.e., Firm's who Initial Public Offerings (IPO) at Indonesia Stock Exchange during 2019 quite lower.

Table 2. The Regression Coefficient Proceeds

	Score		
	t-Statistics	Probability Significance	Proceeds
Ln_Company Age	1.149	0.256	H <sub>a</sub> Reject (H <sub>0</sub> Accept)
<i>Source: Author's Elaborate (2021)</i>			

Table 2 above represents the yield at-statistics (t-value) is of 1.149 (t-table with dF: 53 = 2.0057), is more than this score (H<sub>a</sub> Rejected). This means of the variable is Company Age (convert to logarithm natural) has a positive and insignificant influence on the Firm's Performance in 55 companies who conduct Initial Public Offerings (IPO) from Indonesia Stock Exchange during 2019.

Table 3. The Determination Coefficient Proceeds

	Score		
	Determination of Coefficients	Std Error	Proceeds
Model	0.024	0.484061	Very Low Contribution
<i>Source: Author's Elaborate (2021)</i>			

Table 3 above shows the produce a Determination of Coefficients score is 0.024 with std. error i.e. 0.484061. This means variable Company Age has a meager contribution to the Firm's Performance in circumstance IPO from Indonesia Stock Exchange during 2019. The standard error produce is a 0.484061 score. It means that this model the not good default of error because has the score is more than the standard deviation.

### Discussion

Accordance with on the data processing from software and, the following proceeds are obtained:

1. The influence of Company Age, from table 2 test yields show that insignificant influence with more than 0,05 probability score, i.e., 0.256, which means that the long or short the company age is established does not determine the Firm's Performance, as same as no support from a prior study in moderating function (LiPuma et al., 2011: 817-841; Hui et al., 2013) and also as a control variable (Ismail and Jenatabadi, 2014: 212-224).

2. The influence of Company Age, from table 2 test yields show that contribution from determination score is 0.204, which means that only has contribution 2.04 percent of the long or short the company age determines the Firm's Performance.

### Conclusion

According to the results and discussions, the inference as follows:

1. Company Age did not influence the Firm's Performance significantly implication.
2. The firm's Performance antecedent only impacts from contribution Company Age by 2,04 percent or can be said to have a meager contribution.

Future researchers must revise the measurement and keep on this research with



add other variables because many factors influenced a firm's performance, such as financial ratio, corporate governance, foreign exchange currency, audit quality, and others. The next agenda is expected to quantify the extent to which another proxy firm's value, such as Tobin's Q index, PBV, and MPV, is a possibly better alternative in evaluating the firm's performance, especially IPO enterprises.

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