Elements of Consideration and Strategy in Making Decisions on Islamic Commercial Bank Public Shares Issuance

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Abstract This study aim to formulate the dominant element and sub-elements of strenght, weakness, opportunity, threat (SWOT) and the strategies in increasing funding sources through of public shares issuance in Islamic Commercial Banks (ICB). The research problem related to ICB low market share, 5.94% of national banks in Sept 2018. This is due to the lack of capital and industrial scale. For this reason, the ICB needs to increase external funding sources through the issuance of public shares. From the 13 BUS in Indonesia at Sept 2018, only 3 BUS issuing public shares. In an optimal capital structure, BUS can develop faster and will encourage the growth of the Indonesian Islamic financial industry. This study uses qualitative and quantitative methods by Analytical Network Process (ANP) using primary data sourced from in-depth interviews to explore the knowledge and experience of the ICB emiten expert practitioners. The dominant element of SWOT is strength and followed by opportunity. The dominant sub-elements are owner support (strength), decreasing financial performance (weakness), broad investor base (opportunity), complex emission formality (threat). Public share issuance strategies related to the timing of emissions, value and price of emissions, underwriters, dividend payment policies, and use of the proceeds of emission funds.

1 INTRODUCTION

The Islamic financial services industry in Indonesia experienced significant growth. Indonesia is predicted to become one of the countries that become a global player in the Islamic financial industry in the world. Indonesia ranks 10th after Qatar and Jordan in the development of the world's halal industry which includes Islamic Finance (Reuters, 2014). In terms of investment, Indonesia in the top three after Malaysia and the United Arab Emirates (United Nation Conference on Trade and Development, 2015). Indonesia's 6th position in the world Islamic finance industry after the United Arab Emirates and Kuwait, up one rank compared to 2015 (World Bank Group, 2016). Indonesia is also listed as the country's largest sukuk issuer in the world 2016.

Since December 2017 there are 13 Sharia Commercial Bank (ICB), 21 Sharia Business Unit (SBU), and 167 Sharia Rural Bank in Indonesia. Data on ICB and SBU during the period 2013-2017, total assets increased by an average of 17.02% per year, financing disbursed per year on average rose 11.03%, and third party funds experienced an average increase of 16.47% per year. Likewise, the role of Islamic banking intermediation is empirically better, with the average Financing to Deposit Ratio for the 2013-2017 of 91.86% compared to conventional banking Loan to Deposit Ratio (90.39%). The role of intermediation is very important because Islamic banking acts as a commercial banking and investment banking that can drive the real economy sector and productivity.

On the other hand, the Financial Services Authority (FSA) in the 2015-2019 Islamic Banking Road Map explained that there were several strategic issues faced and had an impact on the development of Islamic banking including inadequate capital and small scale industries and individual banks. For this reason, policies need to be directed towards strengthening capital and business scale, because the market share of sharia banking to national banks in December 2017 only reach 5.74%. So, that the contribution of Islamic banks to the national economy is still not optimal. Until the end of December 2017, from the 13 ICBs there were only

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1 ICB that had been included in the Business Group Commercial Bank (BUKU) scale 3 (core capital 5 up to 30 trillion Rp). The others of 12 ICBs are in the BUKU scale 2 and 1 (core capital below 5 trillion Rp). Thus additional funding is needed for the development of Islamic Banks.

The limitations of Islamic banks' internal funding sources can be overcome by using external sources of funds by issuing securities, both debt (bonds or sukuk) and investments (stocks). Participating funding sources are more flexible than debt, because they do not have maturity and there are no routine financial obligations to investors. If by the end of 2017 the Indonesia Stock Exchange (IDX) recorded 42 conventional banks that were listed as issuers, only 1 Islamic banks that had made public offerings and listed their shares on the IDX, namely Panin Syariah Bank (BPS). In 2018, Bank Tabungan Pensiun Syariah (BTPNS) and Bank Rakyat Indonesia Syariah (BRIS) have also gone public. It is expected that other ICB can follow the 3 ICB in issuing public shares. According to the corporate IDX, the issuance of public shares bring benefit new funding sources; provide competitive advantages for business development; merge or acquire other companies by financing through share issuance; and improve the going concern ability, image and value of the company. Sulong, Embi, Arifin (2017) shows that there is no significant difference between the initial performance of sharia and non-sharia IPOs, even after controlling for the characteristics of the IPO.

Based on the description, the problems of Islamic banks to be examined are related to capital and industrial scale and individual banks that are still minimal. This causes Islamic banks to be less able to develop optimally and compete with conventional banks. It is expected that with the addition of capital, Islamic banks can carry out their intermediary roles more optimally and can contribute more to the national economy. To increase the funding source, it is necessary to know the advantages, opportunities, costs, risks and the factors that are considered by the ICB in issuing stock securities based on the knowledge or experience of the emiten and regulator experts related to the problem.

2 THEORY

Bank capital structure can be sourced from long-term debt (bonds or sukuk) and equity capital investment. Equity are securities that give the holder the right to become a shareholder of the company that issued the securities. Whereas shares can be defined as a sign of ownership or ownership of a person or entity in a company or limited company. Public offer (go public) according to Undang-Undang Pasar Modal No. 8 Tahun 1995 is a securities offering activity carried out by an issuer to sell securities to the public based on the procedures stipulated in the Capital Market Law and its Implementing Regulations. In terms of capital structure, a public offering is an attempt by the company to obtain fresh funds from the wider community or the investor community by issuing new shares or in other words issuing shares in a portfolio.

External sources of funds coming from bond or sukuk and stock investors can increase the capital of Islamic banks which will impact on increased financing and assets. According to Manopo (2013) who examined banks that went public on the IDX for the period 2008-2010, sales growth, sales stability, and company size affected the capital structure. Decision making related to financial decisions will affect the progress and survival of banking in the future. Puspita and Kusumaningtias (2010) conclude that the capital structure of banks listed on the IDX is important in running their operational business. Asset structure, profitability, and dividend policy affect bank capital structure. In Susyanti (2008), bank profitability has a significant negative effect, while the growth of bank assets and liquidity has a significant positive effect on the financial capital structure of the "X" Bank. Banks need to consider these factors in determining their capital structure.

Poulsena and Stegemollerb (2005) study the movement of assets from private to public ownership through two alternatives, namely the acquisition of a private company by a public (sell out) company or by an initial public offering of shares (IPO). The results show that companies will move to public ownership through an IPO when they have greater growth opportunities. Selling-out seems to be preferred when managers liquidate more from the company and when they face financial constraints. Sulong, et al (2017) is consistent with previous studies which showed that there were no significant differences between the initial Shariah and non-Sharia IPO performance, even after controlling for the IPO Characteristics. However, when the level of openness is considered, the difference in initial returns applies.

3 METHOD

The research population is a Sharia Commercial Bank in Indonesia which at the end of 2017 numbered 13 ICB and sharia financial regulators. The sample of the study consisted of 5 practitioners from BUS who had made a public offering of shares: BDPS, BTPNS, and BRIS.

In this study, the main data used is primary data. Primary data is sourced from indepth interviews to explore the knowledge and experience of experts of ICB from Treassury Division and Corporate Planning Division. The selection of respondents in this study was carried out by purposive sampling and convenience sampling. Sampling is included in the non-probability sample technique. The selected respondents are experts who have knowledge and experience and can answer research questions so that they get theoretical insights (Saunders, Lewis, Thornhill, 2009). Resource persons from the sample of study. Additional data in the form of secondary data obtained from the literature of journals, working papers, books, and publication reports that are closely related to research problems.

The initial stage is carried out in-depth interviews with resource persons with open questions related to the characteristics of funding sources from public shares with SWOT (Strength, Weakness, Opportunity, Threat) approach.

4 RESULT AND DISCUSSION

Based on the results of interviews obtained information on several elements and sub-elements of SWOT approach. The classification of these elements and sub-elements are:

4.1 Strength Elements

In the strenght elements, there are 4 sub-elements that are considered: a) owner support, b) management skills, c) size and company reputation, d) business prospects. This is in line with the results of the study (Wieland, 2001; Sirgy, 2002; Booth, 2007; Garcia, Durendez, Marino, 2011; Chen, Lin, Chang, Lin, 2013)

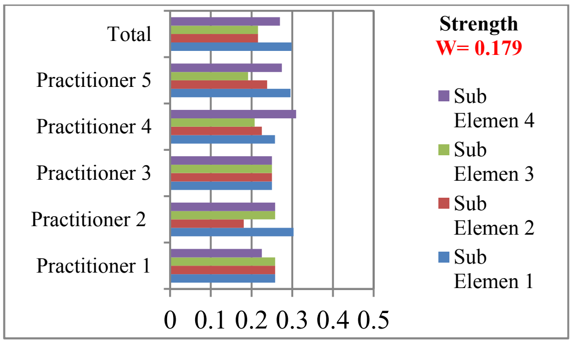

Figure 1. Sub-Elements of Strength

Based on Figure 1 ANP analysis results, overall the practitioners agreed at 0.179 that the dominant sub-element of ICB strength in stock issuance was the owner support followed by business prospects.

4.2 Weakness Elements

The sub-elements of weakness are: a) decreasing financial performance, b) lack of human resources knowledge about stock emissions, c) less management experience in emissions, d) adjustment of emission preparation processes. This is in accordance with the results of the study (Brau, Francis, Kohers, 2003; Lee & Lee, 2008; Chaddad & Reuer, 2009).

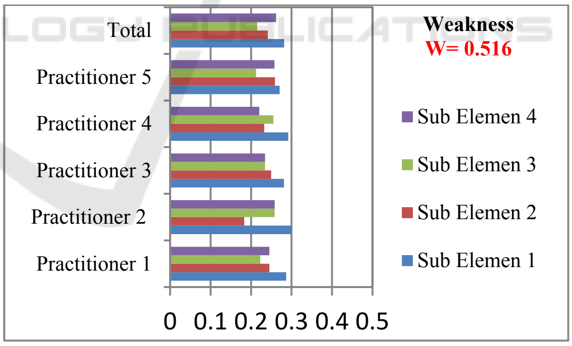

Figure 2. Sub-Elements of Weakness

Figure 2 explains that all practitioners agreed (w = 0.516) that the biggest weakness of ICB related to stock issuance was the decreasing financial performance followed by an adjustment of emission preparation processes.

4.3 Opportunity Elements

Opportunity consist of 4 sub-elements: a) broad investor base, b) a competent underwriters, c) strong regulatory support, d) a good investment climate.

The statement regarding sub-elements of opportunity are supported by Bildik & Yilmaz (2006) and Benninga, Helmantel, Sarig (2005).

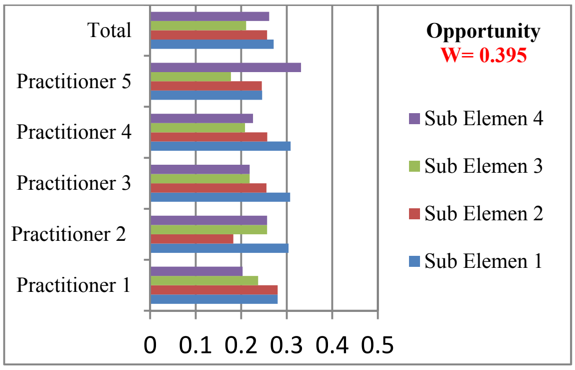

Figure 3. Sub-Elements of Opportunity

The dominant sub-element of opportunity owned by ICB as consideration for issuing shares according to the agreement of the practitioner (W = 0.395) is a broad investor base and then a good investment climate.

4.4 Threat Elements

The sub-elements that are influenced to threat: a) complex emission formality, b) competition to get investors, c) turbulence in capital markets, d) less stable economic conditions. The research results that support this statement is Mori (2000), Certo, Covin, Dalton (2001), Guo, Lev, Zhou (2005, Harjoto & Garen (2005), Asker, Farre-Mensa, Ljungqvist (2014).

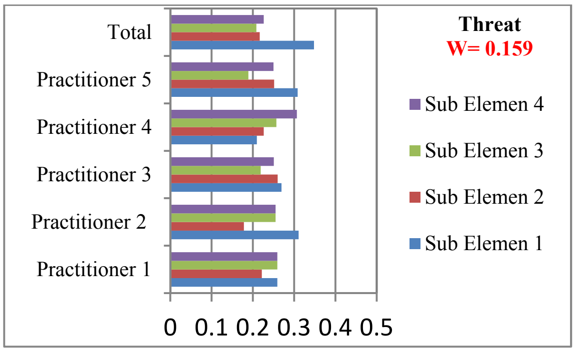

Figure 4. Sub-Elements of Threat

In accordance with ANP results, the practitioners chose complex emission formality followed by less stable economic conditions as the dominant sub-element of the threat with an agreement level of 0.159.

Strengts, Weaknesses, Opportunities, and Threats need to be considered by the ICB before deciding to issue shares as a source of funding. This is related to the consequences that will be faced by the ICB after the issuance of shares. ANP results from all SWOT elements and sub-elements are described as follows:

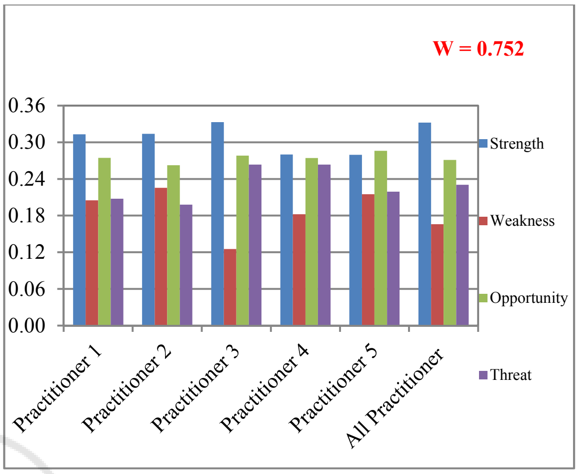

Figure 5. SWOT Elements

Based on Figure 4, the practitioners have an agreement of 0.752 to choose the strength and followed by the opportunity as dominant elements which becomes the consideration of ICB in issuing shares as an alternative source of funding. After that, the new ICB will consider the threats faced and its weaknesses.

Based on in-depth interviews, there are several strategies related to the selection in the issuance of ICB public shares:

a) Emission time

The timing of shares issuance is adjusted to the bank's business plan by considering macroeconomic factors in the country of issuance, because it will affect market conditions that will absorb the stock offering. The right time based on research and observations is in the first semester or first quarter, because investment conditions are generally on the rise.

b) Emission value and price

Determination of the value of emissions is adjusted to the needs of bank funds by considering the ability of issuers to channel funds raised, willingness of dilution from the owner of the company or holding company, and estimates of supply and demand or potential market that can absorb. Determination of the price (valuation) of emissions seen from the results of the calculation of the value of the company by considering the condition of stock price fluctuations in the market and benchmarking of stock prices in the financial industry. The value and price of the emissions are decided jointly between the company, the underwriter, and even involving the holding company.

c) An underwriter

The selection of underwriters is based on previous collaboration experience by the company or the holding company. Then another consideration is the reputation and industry knowledge of the underwriter, the network owned by the underwriter and the decision whether emissions are only for the domestic market or will also be sold abroad. Determination of the underwriter also through the selection process (submission of proposals and presentations), as well as negotiation of emission costs which normally are in the range of 4%-5%.

d) Dividend payment policy

Determination of dividend payment policy learns from experience and consultation with the holding company, market appeal, the company's financial condition, and the flexibility or agreement of shareholders for the development of the company. Dividend policies are generally paid in the range of 20% to 40% can be paid directly the following year or postponed in the next few years to give the company time to make a profit.

e) Use of proceeds from emissions funds

The use of the results of the emission funds is optimized in accordance with those listed on the prospectus, meaning that it is in accordance with the initial planning that has been formulated by the issuer before issuance is made. Proceeds from the issuance can be used to increase capital, increase financing, and develop business networks (offices) of banks and information technology (digital banking).

5 CONCLUSION

Before issuing shares, ICB needs to consider the elements of strength, weakness, opportunity, and threat that influence stock issuance decisions to understand the positive and negative consequences of these actions.

ICB's dominant element in considering stock issuance is the strength followed by opportunity. The dominant sub-element in the SWOT element: owner support (strength), decreasing financial performance (weakness), broad investor base (opportunity), complex emission formality (threat).

Public share issuance strategies related to the timing of emissions, value and price of emissions, underwriters, dividend payment policies, and use of the proceeds of emission funds.

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