

# The Performance of Private Equity Ownership Companies Listed in Indonesia Stock Exchange

*by Melinda Malau*

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6<sup>th</sup>

# ABSTRACT BOOK

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## EDITORS

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# **International CEO**

(Communication, Economics, Organization)

## **Social Sciences Congress**

### **ABSTRACT E-BOOK**

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## International CEO

## Social Sciences Congress

## Presentation

We are delighted to introduce **Gracia University, Sekolah Tinggi Manajemen IPMI (IPMI - International Business School), Mohanlal Sukhadia University, Samarkand Branch of Tashkent University of Economics, International Vision University, Alfred Nobel University, International Ghorazde University, Nişantaşı University, University of Prizren, Cyprus West University, Insec, NCM Publishing, Çilek Tekmer, Universitas Bhayangkara, Knowledge Laboratory and Ostim Technical University** served as the vehicle of dissemination for a showpiece of articles at the **International CEO (Communication, Economics, Organization) Social Sciences Congress (CEO SSC 2023, Arizona, USA)** that was held online on June 16-18, 2023. CEO Congress aims to provide a platform for discussing the issues, challenges, opportunities and findings of **Communication, Economics, Organization and Social Science** research. The organizing committee with feedback from the division chairs and the members of the **scientific committee** foresaw an opportunity and research gap in the conference theme, that pitches for pressing issues in the business world.

Presentations are in Turkish & English & Indonesian. With the participation and contributions of academics from 31 countries: Albania, Argentina, Azerbaijan, Bangladesh, Belarus, Bosnia and Herzegovina, Canada, Cuba, Ethiopia, Hungary, India, Indonesia, Iran, Ireland, Kosovo, Kyrgyzstan, New Zealand, Pakistan, Palestine, Philippines, Poland, Portugal, Romania, Russia, Spain, Thailand, TRNC, Türkiye, Ukraine, USA, Uzbekistan. It is a great privilege for us to present the Abstract Book of CEO SSC 2023 to the authors and delegates of the conference.

Several manuscripts from prestigious institutions could not be accepted due to the reviewing outcomes and our capacity constraints. Participation from **141 different institutions or universities**. The **3** days long conference gathered close to **464 national and international attendees** to enliven a constellation of contributions. **89** papers of the **274** papers approved to present at the congress are outside of Türkiye. **68% of the papers presented at the congress are from outside Türkiye**. **6** awards were issued to distinguished papers, and a total of **274 oral presentations**.

On the day of completion of this journey, we are delighted with a **high level of satisfaction and aspiration**. It is important to offer our sincere thanks and gratitude to a range of organizations and individuals, without whom this year's conference would not take place. This conference would have not materialized without the efforts of the contributing **authors for sharing the fruit of their research and the reviewers for scrutinizing**, despite their busy schedules. We also thank **our members and colleagues who accepted the duty to participate in the Scientific Committee** and for their valuable help in the screening, selecting, and recommending best contributions.

All presentations made during the congress were published on the social media accounts of the CEO Congress.



6<sup>th</sup> International CEO Communication, Economics, Organization & Social Sciences Congress

## The Performance of Private Equity Ownership Companies Listed in Indonesia Stock Exchange

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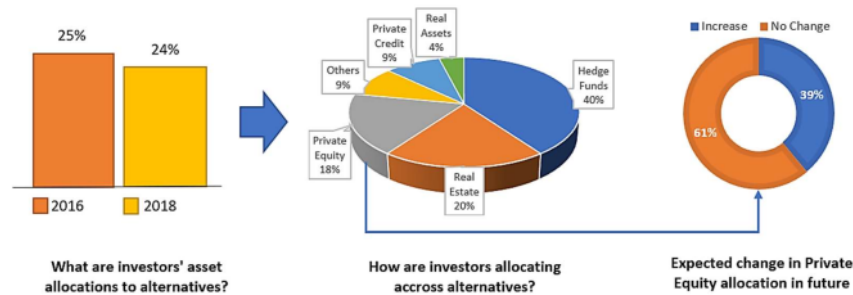
### ABSTRACT

Private Equity (PE) has grown significantly over the last few decades. PE invests in companies with growth potential to increase their value over time. Several studies show that large PE companies are quite hesitant to invest in Indonesia. Despite the political and regulatory challenges, most companies controlled by families or local conglomerates still need to be more explained about the impact of PE on their business and are more likely willing to share ownership with other investors. Therefore, this study examines how PE investment affects companies listed on the Indonesia Stock Exchange. The variables used are liquidity, leverage, profitability, sales growth, returns, and company size as control variables. The sample consists of 600 quarterly financial data from 15 PE-backed companies and 15 non-PE-backed companies from 5 years after the IPO or after PE's investment, whichever is the most recent. This study uses quantitative research methods and purposive sampling with significant tests method. Research findings show that PE positively and significantly affects liquidity, profitability, and sales growth. This study supports the theory of Principal Agents and the Efficient Market Hypothesis. For practical implication, investors may view PE investments as an indicator of good portfolio performance, while entrepreneurs may view them as a funding option that improves company performance.

**Keywords:** Liquidity, Leverage, Profitability, Sales Growth, Stock Return

## INTRODUCTION

At the moment, the majority of investors sell their assets on the open market. Only 24% of investors' investment allocation is given to options other than the public market, and of that 24%, only 18% engage in private equity, according to research done by EY for the 2019 Global Private Equity Survey. This suggests that private equity has significant room for expansion, as seen in Figure 1.



**Figure 1. Investors' Asset Allocation Alternatives**

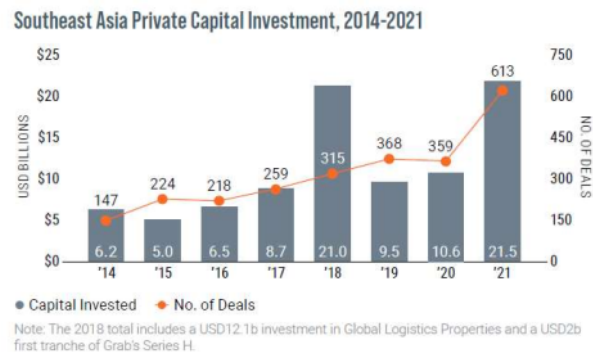
Source: 2019 Global Private Equity Survey by EY

Private equity may be defined as the investment of equity capital in privately held businesses. An investor buys an interest in a private firm in a conventional private equity transaction with the expectation that the stake's value would increase over time. Companies with competitive advantages and a foothold in quickly developing areas are what private equity looks for. These funds look for businesses with mathematical growth and capital limitations and provide the tools and expertise necessary for their exponential growth. Today's fast growing and varied firm is committed to pursuing wealth creation in a similar way.

Private equity has its roots in the US and has aided the expansion of several multinational corporations, including Google, Microsoft, Apple, Amazon, Federal Express, and others. Since private equity funds are created to lower the risks connected with the firms they participate in, they are a possible replacement for traditional funding. PE funds have distinct monitoring and governance procedures (Sahlman, 1990). In addition to providing financial support, PE can help invested companies improve their operations and management skills, boost their reputation, and optimize their corporate governance structures, all of which can have positive external effects that encourage their quick growth and successful listing (Xin and Xiumin, 2019)

## 1. BACKGROUND

Over the past two decades, the private equity sector has grown dramatically, and academic research has become more and more focused on its effects. Following an already lucrative year in 2020, private capital investment in Southeast Asia more than quadrupled to a record \$21.5 billion in 2021. In contrast to the 359 deals completed in 2020, investors completed 613 transactions in total. Investments in the transportation, payments, and healthcare sectors drove an 86% yearly increase in the amount of money spent on PE deals.



**Figure 2. Southeast Asia Private Capital Investment**

**Source:** 2022 Southeast Asia Data Insight by GPCA

One of the most alluring and difficult rising economies in the world, Indonesia, is being pursued by private equity groups. Indonesia has developed into one of the most alluring Asian and Emerging markets, according to a Probitas Partners assessment of institutional investors in private equity for 2022. However, there are comparatively fewer who choose Indonesia as a targeted country when compared to other Asian markets, namely Vietnam and other Southeast Asian nations. As part of the most attractive Asian markets and most attractive emerging markets, Indonesia was not in an increasing rank trend from 2016 to 2022, which is different from Vietnam and other Southeast Asian countries that have an inclining trend, especially Vietnam. This analysis is going deeper into the trend of these markets. It is based on data from the Probitas Partners Survey from 2016 to 2022.

A 2012 Wall Street Journal investigation found that Indonesia was still too dangerous for investors without the right connections and knowledge due to Indonesia's lengthy history of corruption and convoluted legal processes. In addition, it is difficult to reliably make sizable investments due to Indonesia's complicated regulatory system. One of the executives of a private equity firm in Southeast Asia stated that Indonesian businesses are well-positioned to



explore international markets as well as expand locally, and they are looking for a partner to support their growth by providing financial support as well as access to global best practices to help them become more competitive. Only a few private equity companies, nevertheless, have been successful in identifying opportunities in and near Indonesia. Due to the company's inability to complete significant transactions in the area, the Southeast Asia Head of The Carlyle Group resigned after more than four years on the job. Therefore, whether there are enough possibilities to merit their efforts is the investors' main issue in Indonesia.

Another aspect limiting the key players is the size of a transaction. Analysts claim that while private equity firms like KKR like to invest more than \$500 million in acquisitions, they actually find smaller investments in Asia. The majority of Indonesian business owners need less money. Given that the majority of the biggest companies in the nation are owned by local conglomerates or the government, there is no question that a sizable chunk of the Indonesian economy need more funding. While most families that hold the largest companies in the nation do not require outside money, are unwilling to relinquish ownership, or are just oblivious of <sup>53</sup>the influence of private equity on the company's profitability, privatizations are routinely postponed and occasionally complicated by political disputes.

Due to Indonesia's complex regulatory environment, history of corruption, and the fact that the majority of the nation's largest businesses are run by family-run conglomerates, more investors are willing to give it a try despite the country's significant challenges in attracting investments and concluding deals. The private equity companies embraced aggressive growth tactics, especially in developing countries. However, by enacting various legal measures to boost the investment landscape, the Indonesian government has greatly improved the Indonesia investment ecosystem in recent years. The Indonesian government is devoted to offering domestic and global investors that wish to invest in Indonesia assurance and security.

Studying the literature review reveals that academics have created a framework for their research that is quite established, especially <sup>10</sup>when it comes to the impact of private equity on businesses. There is growing evidence from recent scholarly studies that private equity investors have beaten reasonable standards. According to some study, the financial effects of private equity investments are roughly the same. <sup>32</sup>Research has also been done on the effect of private equity on stock performance. While there are certain firms that were already publicly listed before private equity participated in the company, the majority of research papers focus <sup>38</sup>on the influence of private equity on the success of initial public offerings (IPO) or after the IPO. With thorough research <sup>10</sup>on the effects of private equity investments on a mix of both financial success and stock performance, this study seeks to close the found gap. Due to the



fact that private equity investment in Indonesia is still relatively young, it has also been noted that very little study has been done on Indonesian businesses. As a result, we know very little about how private equity investments affect Indonesian businesses.

The firm in which private equity has invested is a fascinating topic to investigate in light of the previous backdrop. Efficient market hypotheses and principal-agent theory served as the study's guiding theoretical frameworks. According to the Principal-Agent Theory, it might be challenging for the principal (shareholders) to ensure that the agent (management) makes the best decisions. In order to assist the principal influence the agent's conduct, various expenses are routinely incurred (Jensen, M. C., and Meckling, 1976). It is crucial for PE investment experts to get trustworthy data since the information they gather serves as the basis for investment decisions. PE companies act as a middleman between capital sources (principals) and corporate entrepreneurs (agents).

Numerous private equity firms advertise to their potential portfolio companies and investors their capacity to enhance value through improved operational performance. <sup>3</sup> The first researcher to see an increase in operating performance following a leveraged buyout was (Kaplan, 1989). <sup>3</sup> According to a summary of following studies by Kaplan and Strömberg (2009), private equity investments are often linked to increases in operating performance or productivity. <sup>52</sup> As a result, this study will examine the effect of PE investment on firm success in more detail. When it came to reflecting information about individual stocks and the stock market, the securities markets were incredibly efficient, according to the Efficient Market Hypotheses. <sup>11</sup> The widely held belief was that when new information emerges, it travels swiftly and is immediately included into the values of assets. This thesis will provide a conceptual explanation of how stock performance reflects what investors expect from the firm. Based on the aforementioned research gap, investors also have expectations <sup>37</sup> of the firms, which are reflected in the performance of their stock. But additional research is required to fully understand how PE investments affect both stock performance and monetary results. The second goal of the study is to examine how stock performance and PE investment have an influence on investor expectations.

## <sup>55</sup> 2. LITERATURE REVIEW

### 2.1 Principal-Agent Theory

The generic principal-agent relationship is common in a variety of commercial and everyday contexts. In general, an agency relationship exists when the activities of one individual, the principal, are dependent on those of others, the agent (Mehta, 2004).

Shareholders are the principals; firm management is the agents. The principal-agent paradigm's two primary informational concerns are <sup>22</sup> hidden information, also known as asymmetric information, and hidden action, also known as moral hazard (Pratt and Zeckhauser 1985). Most private equity investments now use an organizational structure called a limited partnership to get around the challenges of secret information and covert activity. On the one hand, these private equity partnerships' managers have the time and know-how to choose assets carefully and oversee start-up funds after an investment. Each investor conducting such time-consuming monitoring and due diligence would undoubtedly be wasteful. As a result, it is usually more practicable to only give seasoned private equity fund managers the responsibility of contracting and monitoring (Gompers and Lerner, 1999).

## <sup>24</sup> 2.2 Efficient Market Hypotheses

The <sup>4</sup> efficient market hypothesis (EMH) <sup>4</sup> is still an important part of modern finance. Although the actual data is unclear, the theory is valid. The EMH is applicable to capital markets. A stock market that is efficient in general is one in which stock prices reflect basic business information (Degutis & Novickytė, 2014). The company's market worth differs in this case. <sup>4</sup> Given the above knowledge, it becomes increasingly difficult to earn an excessive return on the stock market. If the market is moderately efficient, technical analysis will not provide a return advantage. In semi-strongly efficient markets, current stock prices reflect not just historical prices but also all publicly accessible information, such as acquisition announcements, <sup>19</sup> dividend distributions, and changes in accounting standards, among other things. In highly efficient markets, current stock prices indicate all conceivable information that does not need to be released. This sort of market efficiency implies that profiting from insider information is impossible, which looks improbable (Malkiel, 2011).

## 2.3 Private Equity Investment

<sup>42</sup> The capital structure of a firm is the mix of debt and equity used to fund its investing activities. Several factors influence the decision between debt and equity. Some capital structure theories describe the drivers of capital structure and claim that <sup>12</sup> the debt-to-equity ratio is determined by the cost and benefit of debt and equity. The assessment of capital structure is critical because the financing alternatives that form capital structure have an influence on profitability, business value, the cost of capital, and investment decisions Hardiyanto et al. (2015), private equity investments are one type of capital structure.

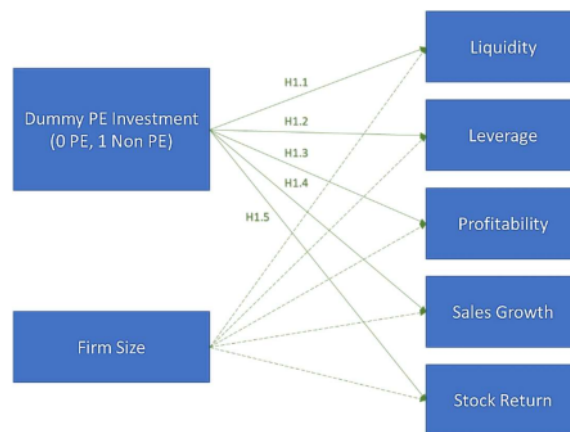
There are three related literary collections. The first group studies if and how private equity funds contribute <sup>33</sup> value to businesses; the second set looks at the financial success of PE-backed firms following their initial public offerings; and the third set looks at PE ownership of businesses following their IPO (Suhail and Echavarría, 2019). The numerous strategies used by PE funds to raise the <sup>25</sup> value of the firms they invest in are the subject of several studies in the academic literature on PE. Capital is provided by private equity to businesses with high prospective returns. According to Gompers and Lerner (2001), understanding the private equity market necessitates familiarity with the full risk cycle, which is divided into four stages: capital acquisition, investment, monitoring, and output. The cycle starts with a risk fund analysis, then progresses to prospection and proposal selection based on project analysis. Whether or whether the expected goals are achieved is determined during the monitoring phase; shared management also adds value.

## 2.4 Company Performance

According to Bhunia et al. (2011) the practice of evaluating <sup>14</sup> a company's operating and financial aspects based on its accounting and financial statements is known as financial performance analysis. The goal of this study is to examine the firm's management's efficacy and <sup>7</sup> performance using financial data and reports. The analyst seeks to assess the firm's liquidity, profitability, and other indications that the business is run sensibly and properly, guaranteeing sufficient returns to shareholders to keep the firm's market value at a minimum. <sup>57</sup> The financial statement is the end result of an accounting procedure that provides financial information about a firm. Investors and <sup>16</sup> managers use the report to make investment choices. The financial statement contains "relatively raw data." Managers demand more than just numbers. The financial statement contains "relatively raw data." Managers demand more than just numbers. <sup>16</sup> The significance of financial reports varies according on who demands them and when they are required (Suhadak et al., 2019).

A performance that is equally significant to financial performance is stock performance. Investing in the stock market is frequently done by investors seeking dividends, capital gains, or firm ownership as a kind of return. Prior to making an investment, investors will think about the company's valuation and the acceptable stock return. When assessing an investment's success, the actual return is crucial (Wijaya et al., 2020). The market worth of the companies is reflected in the stock price. A greater stock price results from a higher stock value (Husnan, 2012). Types of return that are expected mainly by investors are capital gains and dividends (Suhadak et al., 2019). The price of stocks is influenced by supply and demand. These factors

are influenced by irrational variables in addition to rational and irrational variables. Instances of irrational elements include market rumors, peer recommendations, and dreams. Examples of rational factors include financial performance, foreign exchange rate, inflation, interest rate, growth rate, and foreign stock prices. The price of stocks is influenced by supply and demand. These factors are influenced by irrational variables in addition to rational and irrational variables. While market rumors, peer recommendations, and fantasies are examples of irrational variables, financial performance, foreign exchange rate, inflation, interest rate, growth rate, and foreign stock prices are examples of reasonable ones.



**Figure 3. Research Framework**

The assumptions in this investigation are depicted in Figure 3:

- H<sub>1.1</sub>: Investment Private Equity has a positive effect on liquidity
- H<sub>1.2</sub>: Investment Private Equity has a negative effect on the level of leverage
- H<sub>1.3</sub>: Investment Private Equity has a positive effect on profitability
- H<sub>1.4</sub>: Investment Private Equity has a positive effect on sales growth
- H<sub>1.5</sub>: Investment Private Equity has a positive effect on stock return

### 3. RESEARCH METHODS

As for the research framework for analyzing the impact of Private Equity investment on company performance, this study uses four measures based on company financial policies (Cronqvist et al., 2009): liquidity, leverage, profitability, sales growth, and combining with stock returns, with firm size as control variables. A control variable in research investigations is anything that is maintained steady or constrained. It is a variable that has no bearing on the study's goals but is controlled anyway since it might have an impact on the findings. Research

biases like the bias of an omitted variable can be avoided with the use of control variables. Holding variables constant during research allows for direct control of those variables. Purposive sampling is used to obtain data as part of the quantitative descriptive research methodology. A non-probability sampling method called "purposeful sampling" selects units based on their possession of desired qualities.

On the Indonesia Stock Exchange as of September 2022, there are roughly 810 firms listed. These businesses are the population in this research. For this study, it has also been checked to see whether any private equity has been invested in each of the firms using the internet news and investor database (www.crunchbase.com). Roscoe (1975) advises on how to figure out the sample size. He says that the sample size for each study should be between 30 and 500 people, with at least 30 people in each part of the sample. Therefore, 30 companies were picked as our sample. The techniques of data analysis could be explained using two main techniques, which are <sup>23</sup> descriptive statistical analysis and panel data regression analysis (as inferential statistical analysis).

#### 4. RESULTS AND DISCUSSION

The classical assumption test is conducted first before undertaking panel data regression analysis to confirm that the parameter values for testing are legitimate. Normality, multicollinearity, heteroscedasticity, and autocorrelation tests are examples of <sup>2</sup> classical assumption tests that must be satisfied in order to test this technique (Ghozali, 2013). A common assumption test in research is the one that follows.

##### 4.1 Normality Test

The distribution of the regression model is examined for normality using the data normality test. This test is crucial because a good regression model is one in which the distribution of the data is normal or nearly normal. Jarque-Bera - Normality Test was employed in this work as the data normality test. Table 1 displays <sup>45</sup> the results of the normality test:

Table 1. Normality Test Result		
	Jarque-Bera	Nilai Probabilitas
Liquidity	4.128158	0.126935
Leverage	4.770388	0.092071
Profitability	2.681170	0.261693
Sales Growth	5.598653	0.060851
Stock Return	4.041516	0.132555

<sup>5</sup> Source: Results of Data Processing with Eviews 10 (2023)



The Jarque-Bera normality test is used as the foundation for decision-making, and the significance threshold is set at 0.05. If the significance value is more than 0.05, the study data is normally distributed/data dispersed. According to Table 1, the probability value of each regression model is more than the significant threshold of 0.05, implying that the data in this research model are normally distributed.

## 4.2 Panel Data Regression Model

### 4.2.1 Hausman test

For the Hausman test, the following is the hypothesis:

$H_0$ : Random Effect Model (REM)

$H_1$ : Fixed Effect Model

Alpha = 5%

Conditions: Reject  $H_0$  if the p-value < alpha.

Results from the Hausman test performed with the EViews 10 program are reported in Table 2:

Table 2. Hausman Test Results

	Alpha	Cross-Section Random (Prob.)	Estimasi Model
Liquidity	> 0,05	0.2287	Random Effect Model
Leverage	> 0,05	0.0003	Fixed Effect Model
Profitability	> 0,05	0.3851	Random Effect Model
Sales Growth	> 0,05	0.8174	Random Effect Model
Stock Return	> 0,05	0.8386	Random Effect Model

Source: Results of Data Processing with Eviews 10 (2023)

According to Table 2, the probability value in the random variable cross-section test of the liquidity variable is 0.2287, which suggests it has significance above the 95% level of significance ( = 5%). In other words, the model employs the random effect model approach. Therefore, the probability value in the random cross-section test of the leverage variable is 0.0003, which indicates that it has substantially less importance than the 95% threshold (i.e., 5%). In other words, the model employs the fixed effect model approach. The probability value in the random cross-section test of the profitability variable is 0.3851, which indicates that it has a significance higher than the 95% threshold of significance ( = 5%). To put it another way, the model applies the random effect model approach.



Additionally, the sales growth variable's probability value in the random cross-section test is 0.8174, which indicates that it has significance above the 95% level of significance (= 5%). To put it another way, the model applies the random effect model approach. The probability value for the stock return variable in the random cross-section test is 0.8386, which indicates that it has significance above the 95% level of significance (= 5%). To put it another way, the model applies the random effect model approach.

#### 4.2.2 Lagrange Multiplier Test

Between the Pooled Least Square (PLS) and Random Effect Model (REM) methods, this test is used to identify the model. For the LM test, the following is the null hypothesis:

$H_0$ : Common Effect Model (PLS)

$H_1$ : Random Effect Model (REM)

Alpha: 5%

Conditions: Reject  $H_0$  if Prob. Chi-Square < alpha 0.05.

The results of the Lagrange Multiplier Test performed using the EViews 10 Software are reported in Table 3:

**Table 3. Results of the Lagrange Multiplier Test**

	Alpha	Prob. Chi-Square(2)	Estimasi Model
Liquidity	< 0,05	0.0000	Random Effect Model
Leverage	< 0,05	0.0000	Random Effect Model
Profitability	< 0,05	0.0000	Random Effect Model
Sales Growth	< 0,05	0.0000	Random Effect Model
Stock Return	< 0,05	0.6717	Common Effect Model

**Source:** Results of Data Processing with Eviews 10 (2023)

The Prob. Chi-Square variable liquidity of 0.0000 is less than alpha 0.05, according to the findings of the LM test. The random effect model is thus followed by the model estimation technique. The Prob value is then acquired. The alpha is 0.05 and the chi-Square variable leverage is 0.0000. This indicates that the random effect model is followed by the model estimation technique. Because it is possible to calculate a Prob value for the variable profitability. Alpha 0.05 is less than the Chi-Square of 0.0000. Thus, the random effect model is followed by the model estimation technique.

The value of Prob. Chi-Square variable sales growth of 0.0000 is less than alpha 0.05, according to the findings of the LM test. The random effect model is thus followed by the model estimation technique. Last but not least, the Prob. Chi-Square variable stock return of 0.6717 is

larger than alpha 0.05, as determined by the results of the LM test. This indicates that the common effect model is followed by the model estimation technique.

#### 4.3 Best Model Selection Recommendations

**Table 4. Panel Data Regression Model Selection Results**

	Hausman Test	Langrage Multiplier Test
Liquidity	Random Effect Model	Random Effect model
Leverage	Fixed Effect Model	Random Effect Model
Profitability	Random Effect Model	Random Effect Model
Sales Growth	Random Effect Model	Random Effect Model
Stock Return	Random Effect Model	Common Effect Model

The findings of the Langrage multiplier test and the Hausman test on the liquidity variable are identical. The random effect model is shown to be the best choice for affecting liquidity at that point. Additionally, the findings of using a panel data regression model for affecting leverage are inconsistent. It is then found that the optimal model for affecting leverage employs a random effect model after looking at the outcomes of the fixed effect model using a singular matrix. The findings of using the panel data regression model to determine how profitability is influenced are same. The random effect model is then used to identify the optimal model for impacting profitability.

The findings of the Langrage multiplier test or the Hausman test then yielded identical results. Thus, using the random effect model, the optimal model for affecting sales growth is chosen. Last but not least, Table 4's panel data regression model findings for stock return demonstrate a variety of outcomes. The greatest r-squared value is used to identify the best model for affecting stock returns; the random effect model has a higher r-squared value than the common effect model.

#### 4.4 Partial Regression Coefficient Test (t-test)

The estimation results for each model are presented in Table 5:

**Table 5. Hypothesis Testing Results**

	Coefficient	Std. Error	t-Statistic	Prob.
PE → LIQ	0.631552	0.167418	3.772312	0.0001
PE → LEV	-0.039776	0.048500	-0.820124	0.2063
PE → PROF	0.010271	0.004147	2.477049	0.0069
PE → SG	0.032789	0.016872	1.943440	0.0263
PE → SR	0.000538	0.014577	0.036914	0.9706

Source: Results of Data Processing with Eviews 10 (2023)

It may be deduced from the partial hypothesis testing (t-test) findings in the preceding table that:

**1. Effect of PE Investment on Liquidity**

$\beta$  (beta) a positive direction of 0.631552 and a significant value of 0.0001 0.05 (5% significance threshold) are found. As a result, it is possible to conclude that PE investment has a beneficial influence on liquidity.

**2. Effect of PE Investment on Leverage**

$\beta$  (beta) -0.039776 in the negative direction and a significance threshold of 5%, or 0.2063, are used to arrive at the value. As a result, it is evident that PE investment has no impact on leverage.

**3. Effect of PE Investment on Profitability**

Attained a  $\beta$  (beta) value with a positive direction of 0.010271 and a significance level of 5% of 0.0069 0.05. The impact of PE investment on profitability can thus be seen as favorable.

**4. Effect of PE Investment on Sales Growth**

A significance threshold of 5% was used to calculate the  $\beta$  (beta) value, which was achieved in the positive direction at 0.032789. As a result, it is evident that PE investment contributes to the rise of sales.

**5. Effect of PE Investment on Stock Return**

In accordance with the findings of the hypothesis, a  $\beta$  (beta) value is produced with a positive direction of 0.000538 and a significance value of 0.9706 > 0.05 (5% significance threshold). It follows that PE investment has little impact on stock performance.

**4.5 Determination Coefficient Test**

The percentage of the dependent variable's overall variance that is explained collectively is expressed by the coefficient of determination test ( $R^2$ ).  $R^2$  measures the goodness-of-fit, or how well the sample regression line resembles the actual data.

**Table 6. Test Results for the Coefficient of Determination ( $R^2$ )**

	R-Squared
Liquidity	0.0982 (9,82%)
Leverage	0.0148 (1,48%)
Profitability	0.1760 (17,60%)
Sales Growth	0.0119 (1,19%)
Stock Return	0.0074 (0,74%)

**Source:** Results of Data Processing with Eviews version 10 (2023)

According to the study's findings, which are presented in Table 6, the coefficient of determination is 0.098294, meaning that private equity investment has a 9.82% impact on liquidity. Private equity investment has a further effect of 0.0148 or 1.48% on the coefficient of determination of leverage.

Profitability is influenced by private equity investment by 17.60% according to the <sup>39</sup>coefficient of determination of 0.176030. Then, the <sup>26</sup>coefficient of determination is determined to be 0.011946, which indicates that 1.19% of private equity investment has an impact on sales growth. When all is said and done, a coefficient of determination of 0.007378 is found, indicating that a private equity investment of 0.74% has an impact on the stock performance.

## 4.6 Discussion on Findings

### 4.6.1 Private Equity investment positively affects the liquidity

According to the first hypothesis study's findings, private equity investment has a favorable impact on liquidity. Sincerre et al. (2019) show that corporations that disperse a big portion of their profits as dividends tend to avoid building up cash on their balance sheets or feeling forced to make little purchases or investments. These companies are usually young and developing, therefore they tend to pay less of their earnings as dividends (Jain et al., 2009). According to the idea of aligned interests, having a principal owner improves minority shareholder protection, which has a <sup>28</sup>positive impact on cash and equivalents when private equity is present. Chen (2009) <sup>28</sup>highlight the relationship between Venture Capital (VC) and cash and equivalents.

### 4.6.2 Private Equity investment negatively affects the leverage

According to the findings of the second hypothesis's test, private equity investment had no impact on leverage. By communicating to financial markets the inherent worth of invested firms, these funds can significantly impact the amount of information asymmetry. Several facets of company finance policy can be impacted by lessening knowledge asymmetry (Myers and Mailuf, 1984). The likelihood that wealth will be shifted from owners to creditors increases with the <sup>10</sup>amount of corporate debt in the capital structure, agency expenses, and level of corporate leverage (Malau & Murwaningsari, 2018). Studies have shown that this does not always indicate that firms backed by private equity would issue shares more frequently (because <sup>17</sup>they are more likely to obtain a fair price for their shares), leading to lower levels of debt). According to Tulus et al. (2019), firms with PE investments had less debt over the first five

years following their initial public offering. This finding contradicts with that of Yang et al. (2016), who discovered a link between financial leverage and poor corporate performance.

#### 4.6.3 Private Equity investment positively affects the profitability

<sup>15</sup> The results of the third hypothesis show that there is a positive <sup>25</sup> effect of private equity investment <sup>18</sup> on profitability. Morsfield and Tan (2006) believe that companies that invest in private equity on average have superior investment performance than those that do not invest in private equity. (Wright et al., 2009) also conclude that private equity and purchases bring very important economic and social benefits, including profitability. According to study by Sincerre et al. (2019), PE investment businesses exhibit stronger profitability in the near term (3 years after IPO), which is in accordance with this as well. A high <sup>18</sup> return on assets (ROA) suggests <sup>18</sup> that all of the assets used by the business can be profitable. On the other hand, if the ROA is negative, <sup>18</sup> the total assets utilised do not result in a profit or loss (Malau, 2020).

#### 4.6.4 Private Equity investment positively affects the sales growth

According to the findings of evaluating the fourth hypothesis, private equity investment positively impacts sales growth. An additional statistic to assess a company's operational effectiveness is its sales performance. Concerning erratic <sup>17</sup> sales growth, Puri and Zarutskie (2012) show that private equity-funded companies experience faster sales growth than non-funded companies. Before growth rates stabilize, this effect is prevalent in the early years. Paglia and Harjoto (2014) shows that private equity and venture capital benefit sales growth. According to the authors, these findings persisted three years after PE began investing. In addition, Sincerre et al. (2019) support that private equity-backed companies have higher short-term sales growth (3 years after IPO).

#### 4.6.5 Private Equity investment positively affects the stock return

<sup>26</sup> The fifth hypothesis shows that there is no effect of private equity investment on stock returns. <sup>27</sup> Hertz et al. (2002) look at the stock-price performance of publicly traded companies that are raising private equity. They specifically discover that while announcement-period returns are good, the stock's post-announcement price performance for the three years after the offering is disproportionately poor. According to Hertz et al. (2002), this data may point to managerial overconfidence and the investors' failure to notice it. Their reasons support the under-reaction hypothesis, but their data contradict it. The windows of opportunity concept, in



which businesses sell shares to private investors at the greatest price achievable, is supported by their results instead.

## CONCLUSION

According to the results, Private Equity investment has an impact on company performance, particularly financial performance, which in this study is liquidity, profitability, and sales growth. According to the principal-agent theory, Private Equity will reduce the principal-agent issue that occurs between the principal (investor) and the agents (management). According to the principal-agent method, there are various ways to decrease agency costs, one of which is to agree on suitable agent conduct to avoid unwanted behavior, and the principle will spend monitoring expenses to assure this. On the other hand, the result indicates that for the Indonesia's stock market, Private Equity investment might not impact on stock performance. This also indicates that Indonesia's market still not really aware on impact of Private Equity investment in their portfolio companies.

## IMPLICATION

Despite its importance, Private Equity has an impact and influence on a company's success for investors. However, <sup>31</sup> based on the findings of the study, it can be inferred that Indonesian investors must be made aware of <sup>20</sup> the impact of PE investment on their portfolio firms. Consider Private Equity as a funding alternative for practitioners/entrepreneurs that have a promising future business and are looking for another approach to fund it while also improving the company's performance. Private Equity investments are one of the capital structure alternatives that have a major impact on the growth of businesses.

It is critical for the regulator to develop the Indonesian investment ecosystem in order to boost the investment landscape. This is critical in order to provide predictability and security to domestic and foreign businesses looking to invest in Indonesia. This might have a good influence on Indonesia's economic growth.

## LIMITATION

Since the firms being invested in by Private Equity <sup>46</sup> listed on the Indonesia Stock Exchange are still considered <sup>23</sup> to be few in number and the observation period still relatively young, it is fairly rigid to have varied point of view to be researched, which is one of the constraints of this research. This study's research was not restricted to any one particular industry <sup>23</sup> listed on the Indonesia Stock Exchange. As a result, there are several factors that



prevent generalization to all industries. Additionally, the duration of this investigation was unknown. Depending <sup>40</sup> on the year of the IPO or the year of the private equity investment, it may vary from earlier times to more current ones. As a result, the market environment may change from one sample to the next.

## **RECOMMENDATION**

It is advised to determine more parameters for each group (both for companies being invested by Private Equity and not being invested by Private Equity), while also focusing on the specific sectors / industries to reduce the difference on the characteristics of the business.

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