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INTERNATIONAL ISLAMIC UNIVERSITY MALAYSIA  
بنيانها على أسس إسلامية سليمة

# PROCEEDING

## 2<sup>nd</sup> AICIF

### 2<sup>nd</sup> ASEAN INTERNATIONAL CONFERENCE ON ISLAMIC FINANCE

*"Islamic Finance and Its Role in Economic Development and the Creation of Just and Stable Financial System in Light of Maqosid Syariah"*



State Islamic University Sunan Kalijaga  
Royal Ambarukmo Hotel

*Yogyakarta, 12 - 14 November 2014*





# 2<sup>nd</sup> ASEAN INTERNATIONAL CONFERENCE ON ISLAMIC FINANCE

*Islamic Finance and Its Role in Economic Development and  
the Creation of Just and Stable Financial System in Light of Maqosid Syariah*

## 2<sup>nd</sup> ASEAN INTERNATIONAL CONFERENCE ON ISLAMIC FINANCE

*Jointly organized by:*

Faculty of Islamic Economics and Business-UIN Sunan Kalijaga

Institute of Islamic Banking & Finance-IIU Malaysia

Faculty of Economics-UNISSULA



## PREFACE

State Islamic University, as the oldest State Islamic University in Indonesia, has strong commitment in developing Islamic Economics in the world, especially in ASEAN Countries. 2nd ASEAN International Conference on Islamic Finance is the annual conference which has been jointly organized by State Islamic University Sunan Kalijaga Yogyakarta, International Islamic University Malaysia and University Islam Sultan Agung Semarang supported by Islamic Research and Training Institute (IRTI-IDB). The idea of having this international conference sparked from the discussion between IIBF and two universities from Indonesia i.e. UNISSULA and UIN Jogjakarta. They have agreed to strengthen their cooperation and the body of knowledge of Islamic banking and finance by jointly organizing an annual international conference which will be held in Malaysia and Indonesia subsequently. The purpose of this conference has been to generate and disseminate ideas to encourage the best practices as a way for enhancing the growth of Islamic economics around for betterment to all mankind.

The topic of the international conference was “*Islamic Finance and Its Role in Economic Development and the Creation of Just and Stable Monetary System in light of Maqosid Syariah*”. The background of this topics are to address some significant issues, including a) addressing the issue of Islamic finance in the era of ASEAN Economics community that will be started 2015. b) its implication for Islamic economics development of ASEAN members countries. c) the role of Islamic finance on the creation of Islamic monetary system, both in theoretical and practical basis, supported by the integration of ASEAN Community, to enhance the role of Islamic finance. 4) the challenge of Muslim countries for robustness the development of Ummah in ASEAN Community, that mostly are muslim.

Therefore, addressing some above issues, the conference is designed to serve as forum and platform for the academicians, practitioners and researchers to share their knowledge, experience and to learn lessons in managing the Islamic finance especially in the market integration. The conference is answering the need of some ASEAN Countries which much focuses on development of Islamic finance in dealing with the issues of ASEAN Economics community, namely 1) ideas in the creation of just and stable Monetary policy that comply with shariah rule and guidelines. 2) the solution for encouraging the development of Islamic banking and finance in the ASEAN Economics community. 3) Current issues of Islamic banking and finance in managing Hajj fund which is understood as crucial issues for Muslim Countries particularly ASEAN Countries such as Indonesia. The conference also highlighted some issues related to shariah compliant financial Instruments that are very important in providing safeguards against the ribawi system in ASEAN Members countries.

To answer all above issues, some panelists, namely Dr. Dadang Muljawan from Bank Indonesia, Mr. Adiwarmanto Azwar Karim (nominated by IRTI-IDB) will present some issue regarding the role of OIC countries for ASEAN Economics Community. In addition, Prof. Dr. Amin Abdullah will discuss some issue regarding Islamic Economics from philosophic perspective, and Prof. Tjiptohadi Sawarjuwono from University Airlangga will discuss accounting issues in Islam. In the plenary session, there are Chief Executive Officers (CEO) from 6 Islamic Banks, namely Bank Mandiri Syariah, Bank Muamalat Indonesia, Bank BNI Syariah, Bank BRI Syariah, Bank Mega Syariah and Bank Permata Syariah who will highlight their experience in managing Islamic banking. Followed by the discussion on issue of Hajj Fund Management and the role of Islamic Finance: Best Practised in Malaysia and Indonesia. Director General, Hajj and Umroh, Ministry of Religious Affairs, Prof. Dr. H. Abdul Djamil and Dean of Institute of Islamic Banking and Finance, IIUM, Prof. Dr. Syed Musa Al-Habsyi will deliver speech on this issues.

In addition, in this conference there are 70 articles that will be presented in many area of Islamic economics. This proceeding consists the abstracts of that articles, which is hopefully can be a general guideline for the participant of the conference to understand all issue discussed during the event. Therefore, the conference's participant will generate useful discussion on some pertinent issues and will encourage the finding of new ideas to develop Islamic finance.

Yogyakarta, 05 November 2014

Dr. Misnen Ardiansyah, SE, M.Si.Ak.CA.  
Chairman

**AGENDA**  
**2ND ASEAN INTERNATIONAL CONFERENCE ON ISLAMIC FINANCE**  
 Royal Ambarukmo Hotel & Convention Hall UIN Sunan Kalijaga  
 12<sup>th</sup>-14<sup>th</sup> November 2014

Day 1: Wednesday, 12 November 2014	
<b>Venue: Convention Hall UIN Sunan Kalijaga Yogyakarta</b>	
<b>OPENING CEREMONY AND INTERNATIONAL SEMINAR</b>	
12.30-12.45	Registration
12.45-13.00	Welcoming Remarks by the Rector of the UIN Sunan Kalijaga: Prof. Dr. Musa Asy'arie
13.00-13.15	Official Launching by Ministry of Religious Affair : Prof. Dr. Nur Syam, M.Si
13.15-13.30	MOU Signing: UIN Sunan Kaliga and BSM, BMI, BRI Syariah, BNI Syariah, Bank Mega Syariah, Bank Permata Syariah
13.30-14.00	KEYNOTE SPEECH: Deputy Commissioner of OJK: Dr. Mulya E. Siregar
14.00-14.45	Special Address : Dr. Muhammad Syafii Antonio
14.45-15.15	Break and Ashar Prayer
<b>INTERNATIONAL SEMINAR</b>	
15.15-17.30	Moderator: Assoc. Prof. Dr. Muhammad Abduh
	1. Adiwarman Azwar Karim (IRTI-Islamic Development Bank) <i>“Islamic Finance development in OIC Countries and Its Role for the ASEAN Economics Community”</i>
	2. Prof. Dr. H. Amin Abdullah (UIN Sunan Kalijaga) <i>“Islamic Economics in the paradigm of Intergration and Interconnection: Developing New Economics Mainstream for the Betterment of the Ummah.”</i>
	3. Prof. Dr. Tjiptohadi Sawarjuwono (UNAIR) <i>“Islamic Accounting in the Era of ASEAN Economics Community: Opportunity and Challenge”</i>
	4. Dr. Dadang Muljawan (Bank Indonesia) <i>“Islamic Finance and Monetary Policy: the Case of Indonesia”</i>
17.30	End of Session
<b>GALA DINNER AND ISLAMIC ART PERFORMANCE:</b> <b>Theme: “Sunan Kalijaga and Islamic Propagation in Java Island”</b>	
20.00-22.00	Islamic Music Performance: Sunan Kalijaga - <i>Gambus Al-Jamiah</i> - <i>Iilir-ilir Sunan Kalijaga and Islamic Propagation</i>

Day 2: Thursday, 13 November 2014	
Venue : Royal Ambarukmo Hotel	
Plenary Session: CEO Talk: <i>Panel Discussion on Indonesia Shariah Banking</i>	
08:00-10.10	Registration
	Moderator : Dr. Anggito Abimanyu
	1. CEO Bank Syariah Mandiri
	2. CEO Bank BRI Syariah
	3. CEO Bank BNI Syariah
	4. CEO Bank Muammalat Indonesia
	5. CEO Bank Mega Syariah
6. CEO Bank Permata Syariah	
10.10-10.15	Coffee Break
Plenary Session: <i>Hajj Fund Management : Malaysia and Indonesia Experience</i>	
10.15-11.30	Moderator : M. Kurnia Rahman Abadi
	1. Prof. Dr. Syed Musa Al-Habsyi ( <i>Tabung Haji Malaysia</i> )
	2. Prof. Dr. H. Abdul Jamil ( <i>Director General of Hajj, Religious Ministry of RI</i> )
11.30-12.30	Lunch and Dhuhr Prayer
2ND ASEAN INTERANATIONAL CONFERENCE ON ISLAMIC FINANCE	
12:30-14.00	SESSION ONE: (Parallel Session in 5 different Venue)
14.00-15.30	SESSION TWO: (Parallel Session in 5 different Venue)
15.30-16.00	Coffe Break and Ashr Prayer
16.00-17.30	SESSION THREE: (Parallel Session in 5 different Venue)
Day 3: Friday, 14 November 2014	
Venue : Royal Ambarukmo Hotel	
08.00-09.30	SESSION FOUR: (Parallel Session in 5 different Venue)
09.30-10.00	Coffee Break
CLOSING CEREMONY	
10.00-10.30	Speech : FEBI-UIN, IiIBF-IIUM, FE-UNISULA
10.30-10.45	Closing Remarks : Prof. Dr. H. Anis Malik Thoaha (Rector of Universitas Islam Semarang)
10.45-11.00	Award Announcement: Dr. Misnen Ardiansyah
11.00	End of Session

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**INCREASING PERFORMANCE  
THROUGH SEASONED EQUITY OFFERINGS  
IN ISLAMIC SECURITIES EXCHANGES**

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**ABSTRACT**

Seasoned Equity Offerings (SEO) is the number of shares offer by one or more shareholders where share ownership is released generally in large quantities, which is not a public offer to increase the number of shares outstanding. Offers SEO is done because the issuer as the company went public in need of additional funds to finance its operations and or to repay maturing debt, by the way: first, sell the rights (right) to the existing shareholders to buy new shares at a certain price (usually known as a rights issue) and secondly, to sell to any investor who wants to buy new securities offerings through the second, third and so on offerings. The purpose of this offer is to protect the interests of shareholders of the company, especially in implementing preemptive rights. This right is implemented so that existing shareholders can maintain the same proportion as their shareholding prior to the SEO, thus indirectly the performance of the company can be maintained and even increased. This study uses the whole company went public on the Islamic securities exchanges and just doing SEO in 2011-2013 with a sample of purposive sampling method which will then be processed by means of multiple linear regression analysis. The results showed that the improved performance of the company through Seasoned Equity Offerings (SEO) proved positive and significant influence. That is Seasoned Equity Offerings (SEO) is one alternative that can be done by the company went public in meeting the needs of additional funds without having to owe to a third party.

Keywords: seasoned equity offerings, performance, rights issue, islamic securities exchange, and multiple linear regression

## **INTRODUCTION**

The company has gone public that it still requires a source of funds to finance its activities. One way to do enterprise to obtain additional funds is through the mechanism of SEO (Sunarjanto, 2007). Seasoned equity offerings (SEO) is an additional stock offering by the company listed on the stock market, out of stock which first circulated in the community through Initial Public Offerings (IPO) (Megginson, 1997). Offer additional shares is done is to obtain additional funds from investors, both for the sake of expansion, restructuring, and other (Darmadji and Fakhruddin, 2001).

Companies motivation in doing SEO are : (1) obtain funding sources for investment purposes with the hope to increase the profitability of the company, (2) improve the company's capital structure, (3) increase the liquidity of the company, (4) a means of increasing the value of the company, (5) maintain portion ownership of existing shareholders, (6) increasing the liquidity of the stock by increasing the number of shares outstanding, thereby increasing the volume and frequency of trading and stock returns (Wild, 2004). This was confirmed by Schall and Haley (1991), that the company issuing new shares will increase current assets due to the payment of cash shares purchased by investors. The hope, will make the performance of the company has increased, so that the condition of the company becomes more liquid. Eckbo and Masulis (1992) stated that the issuance of new shares (rights issue) leading to the development of optimal financial performance or better.

Beiner et al., (2003) and Shleifer and Vishny (1997) find that investors will react positively if the company has one or more large shareholders, meaning that the positive reaction from investors can predict market reaction is also positive that the company's financial performance can be increased . These results are consistent with findings McConell and Servaes (1990), Nesbitt (1994), Smith (1996), Del Guercio and Hawkins (1999), Partner (2002) Hartzell and Starks (2003), Koh (2003) in Cornett et al., (2006) and Primary and Masud (2003), Asquith dan Mullins (1986); McLaughlin dan Gopala (1996); Laughran dan Ritter (1997); Teoh, Welch, dan Wong (1998); Clarke, Dunbar, dan Kahle (2001); Sulistyanto dan Midiastuti (2002); Sulistyanto dan Wibisono (2003); Altinkilic dan Hansen (2003); Kim dan Shin (2004); Hui, Wong, dan Chiang (2005); Frijins, Navissi, Tourani dan Tsai (2006); Di, Marciukartyte, dan Szewczyk (2007); Astuti (2008); Astoto (2008); Rejeki (2008); Kurniawan dan Rustiti (2008); Hull, Kwak, dan Walker (2009); Aissia, Hallara, dan Eleuch (2009); Jones, Fu, dan Tang (2009); dan Qian, Zhong, dan Zhaodong (2009) which concluded that a second stock offering could increase the company's financial performance.

## **THEORETICAL FRAMEWORK AND HYPOTHESES DEVELOPMENT**

### **Seasoned Equity Offerings (SEO)**

Seasoned Equity Offerings (SEO) is the additional securities offerings (seasoned securities) are carried out by the issuer as a publicly traded company to the public through the capital market. This offer is made because the company has gone public that it requires additional funds to finance its operations (Megginson, (1997); Sulistyanto and Wibisono, 2003). In addition to finance its operations, the purpose of the company doing SEO is to obtain additional funds from investors or the public good for the benefit of expansion, restructuring, and other (Darmadji and Fakhruddin, 2001).

Offers SEO can be done in two ways (Brealey et al., 2001), namely: first, sell the rights (right) to the existing shareholders to buy new shares at a specified price, usually the price of the stock is cheaper and second, to sell to each investors who want to buy the new securities offerings through the second, third offerings, and so on. The second offer was made because it has several advantages compared to the usual public bidding, namely: first, the cost of the rights issue mechanism is cheaper than public offerings since the company does not use the services (underwriter), second, to maintain the existing shareholders' proportionate shares in the company as existing shareholders priority in the purchase of new shares, and third, common stock becomes more liquid because it is bigger and can increase the frequency of stock trading.

Proceeds through SEO is most preferred by the company as a profitable alternative than the acquisition of funds from the bank. Through SEO, companies obtain funds quickly and easily without the need for collateral and without imposing any obligations include interest returns (Brealey, et al, 2001).

### **Financial Performance**

Financial performance management is an achievement, in this case financial management in achieving corporate goals that generate profits and enhance shareholder value. The financial performance of the company is a company that includes a picture of the financial position, as well as the results achieved by the company. Assessment of financial performance aimed to analyze the current financial condition and prospects of the company in the future. Financial performance can be measured by analyzing the company's financial statements (Natalia and Rifka, 2009).

### **SEO Linkages with Financial Performance**

Eckbo and Masulis (1992) reveals that whether or not a company's financial performance after doing SEO can be seen from the financial ratios. The existence of financial ratios can determine the company's financial performance post-existence of an event, in this case is the analysis of the financial performance after SEO. The financial performance of the company as seen from the financial ratios, profitability ratios one, expected to be further increased after the SEO.

### **Return on Assets**

Return on assets (ROA) measures the company's ability to utilize its assets to earn a return. This ratio measures the rate of return on the investment the company has made with the use of all funds (assets) owned (Prastowo and Juliaty, 2005).

### **SEO Influence on Financial Performance views of Return on Assets**

Return on assets (ROA) measures the company's ability to utilize its assets to earn a return. This ratio measures the rate of return on the investment the company has made with the use of all funds (assets) owned (Prastowo and Juliaty, 2005). Companies that carry out SEO will directly increase its own funds and if the funds are used as efficiently to invest in profitable investments to support an increase in profit. The higher the ROA, the net profit will be even bigger and better shows corporate profitability (Natalia and Rifka, 2009). The ROA will increase at one year and two years after the right issue (IM, 2006). This shows that the ROA

after SEO describe positive results, where the company has increased earnings, meaning that the company's financial performance will increase.

**H1:** SEO has a positive and significant impact on the company's financial performance improvement

## **RESEARCH METHODOLOGY**

### **Types and Sources of Data**

The type of data in this study is secondary data obtained indirectly from the Indonesian Capital Market Directory and [www.idx.co.id](http://www.idx.co.id). The data is in the form of financial data of listed companies and do SEO in a way in BES rights issue in 2011 to 2013.

### **Population and Sample**

The population in this study using all companies listed on the Stock Exchange of Sharia and simply do SEO the period 2011-2013, amounting to 91 companies. Determination of the sample using purposive sampling method, with the following criteria:

1. Company issued rights issue in Sharia Stock Exchange 2011-2013
2. The company does not do a rights issue more than once within a period of observation and not doing other corporate actions in the window period, such as IPOs, stock split, bonus shares, reverse stock split, warrant, consolidation, or merger.
3. The company is not banking companies and other financial institutions
4. During the observation period, the company delisted from the BES and have a complete financial statement data.

Based on the above criteria, the following sampling details, as many as 30 companies in one year.

### **Operational Definition and Measurement of Variables**

Seasoned Equity Offerings (SEO) is the additional securities offerings (seasoned securities) are carried out by the issuer as a publicly traded company to the public through the capital market in Initial Public Offerings outside (IPO) (Megginson, 1997). SEO offer is measured using a rights issue

Return On Assets (ROA) indicates the profitability of the company. This ratio measures the rate of return on the investment the company has made with the use of all funds (assets) owned (Prastowo and Juliaty, 2005). The formula:

### **Methods of Data Analysis**

The data analysis method used is a simple linear regression with the regression models as follows:

$$Y = a + \beta_1 X_1 + e$$

Description:

Y = Return on assets  
 $\alpha$  = constant  
X1 = SEO (right issue)  
 $\beta_1$  = Regression Coefficient  
e = error

## RESULTS AND DISCUSSION

The test results are as follows:

$$\text{ROA} = 1.259 + 0.132 \text{ SEO} + e \text{ (error)}$$

The model equation can be explained as follows:

Constant of 1.259 means that if it is not influenced by the independent variable, then the value of the average ROA is equal to 1.259. SEO variable coefficient of 0.132 was obtained. This value indicates that a second stock offering can increase ROA value of 0.132.

First testing hypotheses about the effect of variable 1 SEO yag proxied by a rights issue to the performance of the company which is proxied by ROA shows the t value of 1.264 with a significance of 0.001 ( $p > 0.05$ ), thus the hypothesis is accepted. This means that SEO offers have a positive and significant impact on firm performance (ROA).

The results of the study in line with Schall and Haley (1991), that the company issuing new shares will increase current assets due to the payment of cash shares purchased by investors. Eckbo and Masulis (1992) stated that the issuance of new shares (rights issue) leading to the development of optimal financial performance or better. Beiner et al., (2003) and Shleifer and Vishny (1997), McConell and Servaes (1990), Nesbitt (1994), Smith (1996), Del Guercio and Hawkins (1999), Partner (2002) Hartzell and Starks (2003 ), Koh (2003) in Cornett et al., (2006); Primary and Masud (2003); Asquith and Mullins (1986); McLaughlin and Gopala (1996); Laughran and Ritter (1997); Teoh, Welch, and Wong (1998); Clarke, Dunbar, and Kahle (2001); Sulistyanto and Midiastuti (2002); Sulistyanto and Wibisono (2003); Altinkilic and Hansen (2003); Kim and Shin (2004); Hui, Wong, and Chiang (2005); Frijins, Navissi, Tourani and Tsai (2006); Di, Marciukartyte, and Szewczyk (2007); Astuti (2008); Astoto (2008); Rejeki (2008); Kurniawan and Rustiti (2008); Hull, Kwak, and Walker (2009); Aissia, Hallara, and Eleuch (2009); Jones, Fu, and Tang (2009); and Qian, Zhong, and Zhaodong (2009) which concluded that a second stock offering could increase the company's financial performance. In contrast to the results of research studies Harto (2001) and Candy (2002) suggests that significant performance companies doing SEO has decreased in the period of 3 years after SEO.

## CONCLUSION

Publicly traded companies doing SEO can improve the performance of the company khusussnya financial performance. This is evident from the results of the study showed that a significant positive toward having an SEO company performance. The existence SEO company will receive additional funds that can be used as capital by the company with the goal of reducing the use of sources of funds from a bank loan because it can burden the

company with the risk of unpaid interest at the time of the company's business conditions deteriorate. Therefore, the post is expected to increase earnings SEO company, will ultimately improve the company's profitability can be measured by return on assets. Return on assets (ROA) increased in the three years leading up to and at the time of SEO SEO, SEO indicates that a positive effect on financial performance before and at the time of the SEO. Similar feelings were expressed by Wardjono (2010), that additional funds can be used by SEO companies to take a profitable investment opportunities resulting in increased corporate profits, and consequently improve the performance of the company.

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