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The Influence of Financial Performance and Underwriter Reputation on Annual Return

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Abstract

This study examines the effect of profitability, liquidity, financial leverage, and the underwriter's reputation on the underpricing of Initial Public Offering (IPO) shares. Samples were taken from companies that conducted an IPO on the Indonesia Stock Exchange from 2018 to 2021 using a purposive sampling method, resulting in sample data from 62 companies. Data on underpricing were measured using initial return, profitability was measured by return on equity (ROE), liquidity was measured using the current ratio (CR), financial leverage was measured using the debt-to-equity ratio (DER), and underwriter's reputation was measured using the top 10 in terms of the 20 most active brokerage houses monthly in total trading frequency during the study period. The results of this study indicate that profitability (ROE) and underwriter reputation (RU) have a negative and significant effect on underpricing, while liquidity (CR) and financial leverage (DER) have a negative and insignificant effect on underpricing.

Keywords

Financial leverage, liquidity, profitability, underpricing IPO, underwriter reputation.

INTRODUCTION

Companies face many challenges when they decide to make their initial shares available for sale to the public. Price disparities between the primary and secondary markets are a frequent occurrence, and one specific phenomenon that arises is known as the underpricing phenomenon (Pahlevi, 2016). Underpricing arises due to divergent interests among the parties participating in the initial public offering of stocks. The pricing of shares in the primary market is established through an agreement between the underwriters and issuers, but the pricing in the secondary market is determined by the forces of supply and demand (Kusumawati & Fitriyani, 2019). From the perspective of the issuer, excessive underpricing is disadvantageous since it prevents the company from obtaining the maximum amount of cash. An underwriter mitigates the level of risk associated with its guarantee function, resulting in the company being assigned a lower rating than its true condition.

The underwriter capitalizes on the circumstance by establishing a price that is agreeable to prospective investors. The underwriter's expertise in the current state and conditions of the capital market allows them to mitigate the risk of guaranteeing unsold shares. If the issuer possesses insufficient information, they will agree to a reduced price for their share offering. As the issuer's doubt

regarding the fairness of its share price increases, there is a corresponding increase in the demand for underwriter services to determine the initial share price. Therefore, the underwriter provides an initial share price that is lower than the equilibrium price.

According to Jaunanda (2023) understanding the relationship between expected returns and investment risk is critical when making investment decisions. The relationship between risk and expected return on investment is direct and linear, thus the higher the projected return, the larger the level of risk that must be considered. In the world of investing, it is assumed that investors are rational, which means they dislike/avoid uncertainty and risk. The investment will be made if it offers an acceptable expected return to compensate for the risk that the investor will assume. In conditions of information asymmetry, it is very difficult for investors to distinguish whether the quality of a company is good or not. This causes investors to tend to give low evaluations to shares of both companies. To respond to investors' low assessment of companies, good quality companies can provide a signal to investors to show that the company has good quality. A good signal must meet two conditions, namely as follows: (1) The signal must be perceived by investors so that the costs incurred are not in vain. (2) The signal is difficult or too expensive for low-quality companies to imitate (Ross, 1977). The use of positive signals by issuers and underwriters can effectively reduce the level of uncertainty faced by investors so that investors can differentiate the quality of good and bad companies (Spence, 1973).

This study refers to underwriter reputation and financial performance indicators, such as profitability, financial leverage, and liquidity, which are assumed to have a major impact on share underpricing in Initial Public Offerings (IPO). A profitability metric called Return on Equity (ROE) calculates net profit after taxes on the company's capital. The lesser the issuer's risk, the higher the ROE value will be. The company's high profitability indicates its potential to continue making profits in the future. A profitable business will lessen the uncertainty around the IPO, which will lower the degree of underpricing.

The current ratio is used to calculate the liquidity ratio. A company's current ratio indicates how much of a risk it has of not meeting its short-term obligations and how much of a risk the shareholder's bear. A corporation with a high current ratio will lessen investor uncertainty, which will lower the degree of underpricing. To calculate financial leverage, one might use the Debt-to-Equity Ratio or DER ratio. A firm's substantial financial leverage (DER) might affect the calculation of a fair share price at the time of the IPO by indicating a higher risk of the company defaulting on its debts. When purchasing shares in a corporation, investors also take the underwriter's reputation into account. The Indonesian Stock Exchange's (IDX) determination of the underwriter's overall trade value serves as one indicator of the underwriter's repute.

This study aims to investigate underpricing in companies that held IPOs prior to 2018. This is evident from the company's financial results as well as from the initial return on equity. Due to underpricing, the firm was unable to maximize the proceeds from the sale of its initial shares. The current ratio, return on equity, debt-to-equity ratio, underwriter reputation, and initial return are the variables that researchers use. By examining the performance of the company's financial reports from 2018 to 2021, researchers were able to identify companies that experienced IPO underpricing below 2018. The data were processed using the STATA version 15 computer application.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Asymmetric Information

When information asymmetry leads to underpricing in initial offerings, the parties affected include issuers, underwriters, and investors. Because the underwriter is more knowledgeable about the capital market than the issuer, there may be an information asymmetry (Lestari & Trihastuti, 2020). Issuers will accept lower prices for their share offerings because of the lack of information they have (Safitri, 2013). The underwriter makes use of the information they have to produce an IPO price agreement that is best for them, notably by avoiding the risk of having to acquire shares that do not sell.

Two types of information asymmetry exist: the Baron Model, which describes the relationship between the guarantor company and the issuing company, and the Rock Model, which describes the relationship between informed and uninformed investors (Isfaatun & Hatta, 2010). According to the Rock model, the underwriter and the issuing firm both know less about the fairness of the company's shares than the market does. This concept clarifies the distinction between knowledgeable and uninformed investors. In contrast, uninformed investors do not have sufficient information so they make haphazard bids, whether on IPO shares that are underpriced or overpriced. Informed investors possess

a wealth of knowledge regarding the fairness of share pricing and will purchase shares of underpriced IPO companies.

According to the Baron model, the underwriter is seen to be more knowledgeable than the company itself about the level of demand for the shares of its company. According to this model, the need for underwriter services will rise in tandem with a company's level of share price uncertainty. Permitting the underwriter to offer shares at a price below equilibrium is one way the firm pays the underwriter for the information the underwriter provides. Prices will be harder to determine and underpricing will be more prevalent as the situation becomes more uncertain.

Signaling Theory

For investors and other business players, information is crucial since it offers details on the past, present, and future circumstances that affect a company's ability to survive (Khairudin & Wandita, 2017). There is asymmetry, as the content theory demonstrates, in the details between the company's management and the people interested in that information. The management of the company uses Signaling Theory to advise investors on how the management evaluates the company's prospects (Novalia & Nindito, 2016). Information that is complete, relevant, accurate and timely is needed by investors in the capital market as an analytical tool for making investment decisions. The business helps investors make informed judgments about their investments by disseminating information. The annual report is one document that businesses release that may serve as a signal to parties outside the company, particularly to investors (Novalia & Nindito, 2016). The annual report includes information that both internal and external consumers of the report should know and that is vital for them to know.

An essential component of a company's fundamental examination, financial reports help investors make decisions. Financial ratios are analyzed to determine which companies should go public (Partha & Yasa, 2016). The purpose of this study is to make it easier to understand the financial reports that the management of the company has presented. Investors will be inclined to place their money in a company if its financial performance is strong. These encouraging indicators will pique the interest of investors, raising the company's value. To prevent costs from being squandered, a positive signal needs to be able to meet two requirements: its contents must be appealing to investors and difficult for low-quality enterprises to copy (Irawan & Pangestuti, 2015). Investor uncertainty can be decreased by issuers and underwriters using positive signals, allowing investors to distinguish between the characteristics of good and bad companies.

Underpricing

When a firm is preparing to launch an IPO, underpricing is a common occurrence. The issue that frequently arises during an IPO is underpricing, which is when the share price at the time of the offering is comparatively lower than the closing price when traded on the secondary market (Ramadana, 2018). When shares of the same firm are priced lower on the primary market than they are on the secondary market, this is known as underpricing. According to Kuncoro and Suryaputri (2019), this price differential is referred to as the initial return (IR) or positive return for investors. Uncertainty in secondary market stock prices leads to underpricing. This occurs as a result of the underwriter undervaluing the company relative to its true state.

Underwriters provide low ratings to firms in part to lower the degree of risk associated with the shares they underwrite as security. Underpricing can cause companies to lose money during IPOs, which results in less-than-ideal funding from the general public. This is due to the fact that shares in the secondary market are more expensive than those in the primary market (Rastiti & Stephanus, 2015). Consequently, business owners who wish to implement IPO publicly seek to reduce underpricing. However, if we look at it from the investor's point of view, the underpricing phenomenon will be profitable because the investor will enjoy an initial return from the purchase of shares they make.

The Effect of Profitability on IPO Underpricing

A company with a high level of profitability reflects its ability to generate profits in the future. This could be an attraction for investors to buy shares in that company. The company's high profitability will reduce the uncertainty of the IPO, thereby reducing the level of underpricing. Good profitability growth is a signal that the company's prospects in the future will increase due to the potential increase in profits obtained by the company. Investors perceive this as a positive signal so that it will increase investors' confidence in the company. If investor confidence increases, then demand for a company's shares will also increase, so that the level of underpricing will become lower. Research by

Khaira and Sudiman (2019) and Yuliani et al. (2019) explain that profitability has a significant effect on the underpricing of shares of companies conducting an IPO, but this is not supported by research by Karim (2019) and Rastiti and Stephanus (2015). Profitability can be measured using ROE. The hypothesis can be formulated as follows:

H1: Profitability has a negative effect on IPO underpricing.

The Effect of Liquidity on IPO Underpricing

Liquidity is the smoothness of disbursing investment capital into cash. Liquidity measures a company's short-term ability to meet its obligations by assessing the company's current assets relative to current debt (Oktavia, 2019). The value of a company can also be seen from how liquid the company is and its ability to meet short-term obligations. If at the time of the IPO, there is a high number of stock transactions, then it can be said that these shares are popular with many investors. A company with a high Current Ratio (CR) means it has a high level of liquidity, and this reflects the smaller risk of liquidation that the company and investors must bear. Investors perceive this as a positive signal because it can reduce investor uncertainty which will increase the company's value in the eyes of investors. The increase in the value of the company will make the level of underpricing lower. A research by Pahlevi (2016) explains that liquidity has a significant effect on the underpricing of shares of companies conducting an IPO. Meanwhile, research by Khaira and Sudiman (2019) and Kusumawati and Fitriyani (2019) explains that liquidity does not have a significant effect on the underpricing of shares of companies conducting an IPO. Based on the description above, the hypothesis can be formulated as follows:

H2: Liquidity has a negative effect on IPO underpricing.

The Effect of Financial Leverage on IPO Underpricing

Large financial leverage indicates that the capital structure is mostly financed by loans, so the company's dependence on creditors increases. This causes share prices to fall further. Debt is an important aspect that investors use to assess the financial health of a company. The higher the financial leverage a company has, the higher the company's risk in its ability to pay its debts. Companies often experience a decline in performance because the debt is too large, making the company unable to fulfil its obligations. This information is considered by investors as a bad signal, thereby reducing demand for the company's shares. Investors often consider information about financial leverage to avoid overvaluing shares, which leads to underpricing. High financial leverage will result in stock prices that are too low (Pahlevi, 2016). This will have a negative impact on the level of annual income that investors will receive on their investments. Therefore, the higher a company's financial leverage, the lower the annual returns investors will receive. Research by Kusumawati and Fitriyani (2019) and Oktavia (2019) explains that financial leverage has a significant effect on the underpricing of shares of companies conducting an IPO, but this is not supported by research by (Lestari & Trihastuti, 2020; Mahatidana & Yunita, 2017). Based on the explanation above, the hypothesis that can be formulated is as follows:

H3: Financial leverage has a positive effect on IPO underpricing.

The Influence of Underwriter Reputation on IPO Underpricing

The issuer and underwriter have a very close relationship. The high or low price of the initial shares that the investor will buy depends on whether there is an agreement between the two parties. Underwriters who do not yet have a reputation tend to be very careful to avoid the risk of buying shares that are not sold. Therefore, they set the initial share price lower than the secondary market price. Meanwhile, underwriters who have a high reputation are willing to give high prices as a consequence of the quality of their guarantee (Pahlevi, 2016). When an issuer chooses to use the services of an underwriter with a good reputation, this is a positive signal about the quality of the company, so the level of underpricing will be lower. Research by Karim (2019) and Mahatidana and Yunita (2017) and Rastiti and Stephanus (2015) explains that Underwriter Reputation has a significant effect on the underpricing of shares of companies conducting an Initial Public Offering (IPO). Meanwhile, research by Irawan and Pangestuti (2015) and Pahlevi (2016) explains that Underwriter Reputation does not have a significant effect on the underpricing of shares of companies conducting an IPO. Based on the description above, the hypothesis can be formulated as follows:

H4: Underwriter reputation has a negative effect on IPO underpricing.

RESEARCH METHOD

Sample

Researchers use a purposive sampling technique because this technique involves determining certain criteria that must be met by the samples that will be used in this research. Certain criteria that must be met by the sample to be used in this research are:

1. Companies that carry out an Initial Public Offering (IPO) and are listed on the Indonesia Stock Exchange (IDX) from 2018 to 2021.
2. Non-financial companies listed on the IDX during the 2018-2021 period.
3. The company was not removed from the IDX during the research period.
4. The company publishes audited financial reports ending on December 31.
5. The company provides financial reports in rupiah currency.
6. Companies that have complete data or information to support this research.
7. Companies that experienced underpricing during IPOs during the 2018-2021 period

This research uses quantitative data. This data is already available on the IDX website in the form of financial reports from selected sample companies. The financial report data information used by researchers in this study was obtained from the SandP Global website and the Indonesian Stock Exchange (<http://www.idx.co.id>).

Empirical Research Model

The analytical method was used to determine the impact of independent variables (ROE, CR, DER) on the dependent variable (IR).

The research model can be formulated as follows:

$$IR = \lambda + \beta_1 ROE + \beta_2 CR + \beta_3 DER + \beta_4 RU + \beta_5 FS + e$$

Y = Initial Return

λ = Constant

β_1 - β_5 = Parameter Coefficient

ROE = Return on Equity

CR = Current Ratio

DER = Debt to Equity Ratio

RU = Underwriter Reputation

FS = Firm Size

e = Disturbance Error

Dependent Variable

Underpricing is measured using Initial Return (IR), which is the difference between the initial offering price (offering price) at the IPO and the stock price on the first day of closing (closing price) on the secondary market divided by the offering price multiplied by 100% (Irawan & Pangestuti, 2015). According to Weygandt et al. (2015), the IR calculation can be shown in the following formula:

$$CG = \frac{(Pt1 - Pt0)}{Pt0} \times 100\%$$

Notes:

CG = Capital Gain

Pt1 = This year's share price

Pt0 = Last year's share price

Independent Variables

The independent variables used in this research are Profitability, Liquidity, Financial Leverage, and Underwriter Reputation which can be measured sequentially using Return on Equity, Current Ratio, Debt to Equity Ratio, and the top 10 in the 20 Most Active Brokerage House Monthly in Total Trading Frequency.

1. ROE is a measurement of the income available to company owners (both ordinary shareholders and preferred shares) for the capital they invest in the company (Khaira & Sudiman, 2019). The ROE calculation can be shown in the following formula:

$$ROE = \frac{Net\ Income}{Total\ Equity} \times 100\%$$

2. CR is a liquidity ratio that measures a company's ability to meet short-term debt with current assets. The CR calculation can be shown in the following formula:

$$CR = \frac{\text{Current Assets}}{\text{Current Liabilities}} \times 100\%$$

3. DER is a solvency ratio that measures a company's ability to meet debt with equity. The DER calculation can be shown in the following formula:

$$DER = \frac{\text{Total Debt}}{\text{Total Equity}} \times 100\%$$

4. Underwriter reputation is a scale of underwriter quality in an issuer's share offering. Underwriter reputation is measured based on underwriter ratings. Underwriter reputation is calculated using a dummy variable, with a value of 1 if the company uses the services of an underwriter who is included in the top 10 in the 20 Most Active Brokerage House Monthly in Total Trading Frequency during the research period, and 0 = if the company uses the services of an underwriter outside the top 10 underwriters (Irawan & Pangestuti, 2015).

Control Variables

The control variable used in this research is Firm Size. Firm size is measured using the natural logarithm of total assets. Total assets in natural logarithm form will normalize the distribution of total asset data.

RESULTS AND DISCUSSION

Table 1. Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
IR	248	1.118134	1.221053	-0.1077	6.4091
ROE	248	0.0990456	0.1655002	-0.7208	0.759
CR	248	2.191153	2.475422	0.007	20.139
DER	248	1.247362	1.332063	0.0385	10.2462
RU	248	0.4193548	0.4944514	0	1
FS	248	27.37683	1.261792	23.3077	30.4129

Table 2. Multicollinearity Test – VIF Test

Variable	VIF	1/VIF
ROE	1.13	0.883357
CR	1.13	0.888664
DER	1.12	0.895429
FS	1.09	0.917036
RU	1.09	0.920332
Mean VIF	1.11	

Source: Processed Data

Based on the results of the VIF multicollinearity test, it can be concluded that there is no indication of multicollinearity occurring in this research model because the overall VIF value is smaller than 10 and the tolerance value is greater than 0.1.

Table 3. Heteroscedasticity Test – White Test

White's test for Ho: homoscedasticity Against Ha: Unrestricted heteroscedasticity				
Chi2(19) = 49.83				
Prob > chi2 = 0.0001				
Cameron and Trivedi's decomposition of the IM-test				
Source	Chi2	df	p	
Heteroskedasticity	49.83	19	0.0001	
Skewness	35.16	5	0.0000	
Kurtosis	1.37	1	0.2411	
Total	86.37	25	0.0000	

Source: Processed Data

Based on Table 3, it can be seen that the probability is greater than 0.05. Probability > 0.05 means the results are not significant, so there are no heteroscedasticity problems.

Table 4. Autocorrelation Test – Durbin-Watson Test

Number of gaps in sample =	4
Durbin-Watson d-statistic (6, 244) =	1.867115

Source: Processed Data

Table 4 shows the DW value of 1.867115. The DU value in the Durbin-Watson table with k = 4 and n = 62 is 1.73, so the 4-DU value is 2.27. The DW value lies between DU and 4-DU ($1.73 < 1.867115 < 2.27$), so there is no autocorrelation in the research model.

Table 5. Hypothesis Test

Liner regression				Number of obs =	244
				F (5,238) =	9.32
Source	SS	df	MS	Prob > F =	0.0000
Model	49.1499313	5	9.82998625	R-squared =	0.1430
Residual	294.464055	238	1.23724393	Adj R-squared =	0.1250
Total	343.613986	243	1.41404933	Root MSE =	1.1123

BC_IR	Coef.	Robust Std. Err.	t	P > t	95% Conf. Interval	
ROE	-1.117213	0.4550841	-2.45	0.015	-2.01371	-0.2207058
CR	-0.006394	0.031708	-0.20	0.840	-0.0688581	0.0560701
DER	-0.017014	0.0563807	-0.30	0.763	-0.128083	0.0940549
RU	-0.298439	0.1500962	-1.99	0.048	-0.5941256	-0.0027523
FS	-0.254992	0.0588187	-4.34	0.000	-0.3708638	-0.1391203
_CONS	6.947472	1.630232	4.26	0.000	3.735945	10.159

Determination Coefficient Test (R^2 Test)

Based on Table 5, it can be seen that the correlation coefficient (R^2) is 0.1430 or 14.3%, meaning there is a weak relationship between the independent and dependent variables. Meanwhile, the Adjusted R-squared value is 0.1250, which means that 12.5% of the model is explained by the variables in this model (ROE, CR, DER, RU, FS) while 87.5% is explained by other variables outside this model.

Simultaneous Significance Test (F-test)

The simultaneous significance test (F-Test) determines whether the independent variables have a joint influence on the dependent variable. Based on Table 5, it can be seen that the calculated F value is 9.32 with a significance level of <0.05, specifically 0.000, indicating that all independent variables simultaneously influence underpricing.

Partial Significance Test (t-test)

Based on Table 5, the t-test results show that of the four independent variables included in the regression model, only the ROE and RU variables are significant with a significance level of less than 0.05, while the CR and DER variables do not have a significant influence on the BC_IR variable.

Profitability on Underpricing

Testing the first hypothesis for the profitability variable with the ROE proxy shows a significance level of $0.015 < 0.05$ and the beta results with a negative value, namely -0.006394. The results of testing the first hypothesis show that profitability has a negative and significant effect on IPO underpricing. From these results, the first hypothesis which states that profitability has a negative effect on IPO underpricing is accepted or the hypothesis is supported by the data.

It can be said that ROE is a profitability ratio that can provide information regarding how much the company's return on capital comes from the company's performance in generating profits. Based on signaling theory, a company with a high ROE will give a positive signal to investors to buy shares issued by the company. The greater the ROE, the greater the level of return expected by investors and this is what triggers investors to invest capital in a company. A high ROE value indicates the

company's ability to generate profits in the future, and profits are important information for investors because they influence the returns they will receive. The high profitability of a company will increase investor confidence, so the level of underpricing will decrease. This negative relationship indicates that if ROE increases, underpricing will decrease.

The results of this research support the results of research conducted by Khaira and Sudiman (2019) and Yuliani et al. (2019), which state that profitability has a significant effect on the underpricing of shares of companies conducting an Initial Public Offering (IPO). However, these results are not supported by research by (Karim, 2019; Rastiti & Stephanus, 2015).

Liquidity on Underpricing

Testing the second hypothesis for the liquidity variable with the CR proxy shows a significance level of $0.840 > 0.05$, and the beta result with a negative value is -0.006394 . The results of testing the second hypothesis show that liquidity has a negative and insignificant effect on IPO underpricing. From these results, the second hypothesis which states that liquidity has a negative effect on IPO underpricing is not accepted or the hypothesis is not supported by the data because liquidity before the IPO is not a major concern for investors in determining what shares to buy.

According to Indrastiti (2015), even though the company's assets are still small, its growth potential is promising. It can be said that in carrying out an IPO, the company does not have to have high assets. The IPO process actually helps companies add funds for expansion so that they can increase company assets, both current assets and fixed assets. Therefore, it can be said that CR, which compares current assets to current liabilities, does not have a significant influence on the level of underpricing of IPO shares.

The results of this research support the results of research conducted by Khaira and Sudiman (2019) and Kusumawati and Fitriyani (2019), which explain that liquidity does not have a significant effect on the underpricing of shares of companies conducting an Initial Public Offering (IPO). The results of this research are in contrast to the results of research conducted by Pahlevi (2016) explaining that liquidity has a significant effect on the underpricing of shares of companies conducting an Initial Public Offering (IPO).

Financial Leverage on Underpricing

Testing the third hypothesis for the financial leverage variable with the DER proxy shows a significance level of $0.763 > 0.05$, and a beta with a negative value, namely -0.017014 . The results of testing the third hypothesis show that financial leverage has a negative and insignificant effect on IPO underpricing. From these results, the third hypothesis which states that financial leverage has a positive effect on IPO underpricing is rejected or the hypothesis is not supported by the data. This is because financial leverage before the IPO is not really a consideration for investors as long as the information presented and disclosed by the company is clear and credible, especially regarding the company's ability to pay its obligations. Thus, financial leverage does not have a significant influence in determining the level of underpricing of IPO shares.

The results of this research support the results of research conducted by Lestari and Trihastuti (2020) and Mahatidana and Yunita (2017), which state that financial leverage does not have a significant effect on the underpricing of shares of companies conducting an Initial Public Offering (IPO). The results of this research contradict the results of research conducted by (Kusumawati & Fitriyani, 2019; Oktavia, 2019).

Underwriter Reputation on Underpricing

Testing the fourth hypothesis for the underwriter reputation variable with the RU proxy shows a significance level of $0.048 < 0.05$, and the beta results with a negative value, namely -0.298439 . The results of testing the fourth hypothesis show that the underwriter's reputation has a negative and significant effect on IPO underpricing. From these results, the fourth hypothesis which states that underwriter reputation has a negative effect on IPO underpricing is accepted or the hypothesis is supported by the data. The influence of the underwriter's reputation on the level of underpricing indicates that a better underwriter's reputation will reduce the level of underpricing. The underwriter is a party that plays a very important role in determining the company's share price in the primary market. The results of this research prove that underwriters with a good reputation are trusted by investors to set the issuer's share price at a fair price level (fair pricing).

A reputable underwriter will also organize the issuer's IPO process professionally for its underwriting function by minimizing the possibility of underpricing. This shows that the underwriter has

an influence on initial share sales. The better the underwriter's reputation, the lower the risk of the company conducting an IPO and the lower the level of uncertainty about the shares in the future, so the level of underpricing is also low. The results of this research are also supported by one of the underpricing theories, namely The Lawsuit Avoidance Hypothesis, which states that reputable underwriters always try to present the true company value of the companies they guarantee. This is done to maintain their good reputation and avoid legal repercussions in the future.

The results of this research support the results of research conducted by Karim (2019) and Mahatidana and Yunita (2017) and Rastiti and Stephanus (2015), which explain that the underwriter's reputation has a significant effect on the underpricing of shares of companies conducting an Initial Public Offering (IPO). The results of this research contradict the results of research conducted by (Irawan & Pangestuti, 2015).

CONCLUSION

The results of the processed normality test show that the data used in this research are not normally distributed because the probability is equal to zero. However, after treatment, the probability becomes greater than 0 so that the data becomes normally distributed. The results of the classical assumption test consisting of the multicollinearity test, heteroscedasticity test and autocorrelation test show that the regression model used in the research follows the classical assumption test standards. The result of the correlation coefficient (R^2) is 14.3%, which means that the independent and dependent variables have a weak relationship, and the coefficient of determination (Adjusted R-Square) is 0.1250, which means that 12.5% of the model can be explained by variables in this research model. The results of simultaneous significance (F) show that the calculated F value is 9.32 with a significance level smaller than $0.00 < 0.05$. A significance level of less than 0.05 indicates that all independent variables simultaneously influence underpricing. Based on the results of simultaneous and partial significance testing, which were analyzed in this research in the previous chapter, the researcher draws the following conclusions:

1. Profitability (ROE) has a negative and significant effect on IPO underpricing. So, H1 is accepted
2. Liquidity (CR) has a negative and insignificant effect on IPO underpricing. So, H2 is rejected.
3. Financial leverage (DER) has a negative and insignificant effect on IPO underpricing. So, H3 is rejected.
4. Underwriter reputation (RU) has a negative and significant effect on IPO underpricing. So, H4 is accepted.

Implications of Research Results

The implications of the results of this research are aimed at companies, investors and scientific development. For companies, this research is useful in helping assess the financial performance and reputation of their company's underwriters and provide an overview of the company's prospects in the future, especially for companies that want to go public. For investors, this research is useful for making wiser stock investment decisions and thinking about the financial performance and reputation of the underwriter when making investments. This is because the underwriter's reputation and financial performance can help investors in assessing and making investment decisions. For the development of knowledge, this research is useful for increasing understanding and insight regarding the factors that influence the underpricing of IPO shares. Apart from that, it is hoped that this research will benefit future researchers and complement several existing limitations.

Suggestions for Further Research

Based on the results of the research analysis from the tests that have been carried out, the researcher is aware of the shortcomings of this research. Therefore, the researcher proposes several suggestions for further research studies, as follows: Expanding the range of research periods to obtain research results that are able to better describe the underpricing phenomenon. Adding independent variables that may have a greater influence on underpricing. Using other data processing methods and different years so that the results are more varied and more up-to-date.

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