DETERMINANTS OF IPO: THE LISTED FIRM IN INDONESIA STOCK EXCHANGE

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ABSTRACT

This research aims to determine the factors that influence the underpricing variables used are leverage, auditor's reputation, underwriter reputation, and size. The method used in this study is purposive sampling, obtained a sample of 159 companies listed on the Indonesian stock exchange.

The study was conducted using descriptive statistical analysis and regression analysis with a significant level of 5%, the results of the study concluded that the leverage variable shows a negative effect on underpricing in IPO shares, Auditor's reputation shows a negative effect on underpricing on IPO shares, Underwriter's reputation shows a positive effect on underpricing in IPO shares. IPO shares and Size showed a positive influence on underpricing on IPO shares.

Keywords: IPO, Underpricing, Leverage, Auditor Reputation, Underwriter Reputation, Size

INTRODUCTION

A company to be able to maintain its growth and operational activities require capital because it is impossible for the company to only control capital that comes from internal sources. Therefore, the company requires additional capital from external. One way to increase capital is that companies must go public or offer shares to the public. After the company goes public, the company must first make an initial public offering or what is called an Initial Public Offering (IPO). IPO is a company that carries out sales and purchases on the primary market to earn profits or funds and improve the work image of companies that are going to go public. During IPO, the situation often happens is if the offered price of the stock tends to be lower than the happened price on the first day of trading on the public market or Stock Exchange (Purbarangga, 2013). The situation of a positive difference between the bid price and the closing price is known as underpricing. On the other hand, a higher bid price will likely result in a lower percentage of returns on the first day (Aslam, 2017; Beck, 2017).

The level of underpricing in emerging markets appears to be much higher than in developed markets (Boulanouar, 2016). and the high level of underpricing can be influenced by internal factors originating from the issuer as well as external factors. For this reason, it is necessary to look for the underpricing determinants symptoms. (Ramadana, 2018). The factors that contribute to the IPO underpricing are leverage (Walker, 2007; Indriani & Marlia, 2014), Underwriter's reputation (Rizqi & Harto, 2013; Ramadana, 2018, Gusni, Subing & Lestari, 2019). Auditor Reputation (Aryapranata & Adityawarman, 2017) and Company Size (Safitri, 2013, Asnaini, 2019).

IPOs is apt to be cheaper than lower offerings. For the smaller the company size, the lower the price. Also, the initial returns are much larger than in more normal times (Michael & Thornton, 2008).

This study to solve research problem base on the IPO underpricing phenomenon and the factors that influence it in the capital market of the Indonesia Stock Exchange.

LITERATURE REVIEW

Underpricing describes the difference between the stock price of the first day on the secondary market, is higher than the share price of initial offering (Aini, 2013; Beatty, 1989). The other word, the result of price uncertainty in primary market (Carter and Manaster, 1990). The determinants of initial offering price level are the issuer and underwriter, but the fact that the underwriter has a more dominant role than the issuer (Indriani and Marlia, 2014).

Effect of Leverage on Underpricing

One of the risk factors for the company is financial leverage and adds to the uncertainty of the stock price of the new edition. Lestari et. al. (2016) argued that large leverage shows that the capital structure is more financed by loans so that the company's dependence on creditors increases. In a study of the Indonesian IPO market, it can be seen that the IPO performing with the high leverage ratio is poorly comparing to the low leverage ratios (Sahoo and Rajib, 2010).

This factor was previously researched by Cornella and Oktavia (2019), Maya (2013) who proved that Leverage affects underpricing. Meanwhile, Idhar and Nuryanti (2018), Risqi and Harto (2013), Yuliani et al (2019), Assari et al (2014) prove that leverage does not affect underpricing.

Effect of Auditor Reputation on Underpricing

One of the requirements for companies that are going to go public is a financial report that has been audited by a public accounting firm. Also, in the continuation, the auditor will be a resource for investors regarding the financial statements issued by the issuer. The financial report is a basic indicator of making investment decisions. Thus, the issuer is very interested in the assessments and opinions made by the auditors to obtain a good financial report value. (Pahlevi, 2014).

When a company goes public, the auditor's reputation will affect the credibility of the financial statements. High reputation auditors can be used as quality indicator of the issuing company (Holland and Horton, 1993).

This factor was previously researched by Aini (2013), Kristiantari (2013), Safitri (2013) which stated that the Auditor's Reputation did not affect Underpricing.

Effect of Underwriter's Reputation on Underpricing

Companies tend to choose underwriters who have proven to be able to handle IPOs well. The selection of an underwriter with a good reputation is a signal that the company's IPO is handled by a competent party. Underwriters' reputation is very important because the market is more familiar with underwriters with high reputations, and the market believes that underwriters with high reputations will not underwrite companies with poor quality (Aini, 2013).

The reputation of an underwriter is the considered important factor that believed by investors when buy shares in a company. This very influential on the success of the issuer. According to Sunariyah (2011), the success rate of a securities issuance in a company depends on the ability and experience of the underwriter.

This factor has been previously researched by Yanuar and Rifqi Abdullah (2018), I Putu Eddy (2017), Maya (2013) Riyadi, Ricky & Sjahruddin (2013) and Idhar & Nuryanti (2018) proved that the underwriter's reputation variable had a significant effect on underpricing.

The Effect of Company Size on Underpricing

Company size is a measure based on the size in its industry. The measurement of company size can be used the total assets in the form of a natural logarithm (Ln), (Ramadana, 2018). The size of the company can give an illustration of the state of the company uncertainty in the future. Large-scale companies are generally easy to public recognize than small-scale companies. So are the prospects of large-scale company information are easier for investors to obtain than small-scale companies, thereby reducing the occurrence of information asymmetry.

This factor has been previously researched by Adinda et al (2020), Miswanto and Yanuar (2020), Asnaini (2019) who prove that company size does not affect underpricing. Meanwhile, Mayasari et al (2018), Safitri (2013) proved that company size affects underpricing.

Hypothesis

Based on the previous literature, the following hypotheses are:

Firstly, we have explained the initial public offering and its procedure. From the empirical literature on IPOs in the short term, we have documented it. After presenting these studies, we have developed a hypothesis based on these studies.

IPO is a procedure when a firm sells and offers its shares to the general public through primary markets.

H1: Leverage determines to IPO underpricing

H2: Auditor's reputation determines to IPO underpricing

H3: Reputation Underwriter determines to IPO underpricing

H4: Company size harms determines to underpricing

RESEARCH METHODOLOGY

This research method is used to determine between the studied variables to be have relationship significantly so that it can have conclusions to describe the research object. This research method also uses descriptive and verificative with quantitative approaches and the results of this study will be processed and analyzed to conclude in the sense that the research emphasizes the analysis of numerical data. According to Sugiyono (2011), the quantitative method is a research method used to examine the condition of the object. Meanwhile, quantitative method is a method in which data is in the form of numbers (numeric) which can be processed and analyzed using statistical and mathematical calculations (Sekaran, 2013).

This study was used to test the variable Leverage, Auditor's Reputation, Underwriter Reputation, and Size of the *Underpricing* under study and to test the theory with hypothetical testing whether it was accepted or rejected. This research method will find out a significant relationship or not between the variables studied to produce conclusions that will clarify the object under study.

Population and Sample Size

The population that used in this study are companies that made IPO (go public) which were listed on the Indonesia Stock Exchange in the period 2014 - 2019, coming from all types of industries, companies that carried out IPOs were still listed and active. On the secondary market until 2019. Sample of this research uses a purposive sampling technique which has the following criteria:

1. The company conducted an IPO between 2014 - 2019
2. The company is underpricing.
3. The company has completed data related to the variables used.

Table 1
Samples of Research

No	Industry Sector	Total
1	**Agriculture Sector**	**4**
2	**Mining Sector**	**6**
3	**Miscellaneous Industry Sectors**	**8**
4	**Basic and Chemical Sectors**	**13**
5	**Trade, Service and Investment Sector**	**44**
6	**Financial Sector**	**17**
7	**Industrial Goods Sector**	**17**
8	**Infrastructure, Utilities and Transportation sectors**	**25**
9	**Property, Real Estate and Building Construction Sector**	**25**

Source: Processed data

Variables and Measures

Dependent Variable Y

In this study, there is a dependent variable, namely Underpricing. It can be measured by the percentage of stock returns on public trading on the first day of trading (Beck, 2017). From 2014 to 2019, companies conducting IPO (Initial Public Offering) continued to experience *underpricing* when stock prices were traded on the secondary market

Equation 1

$$\text{UNDERPRICING} = \frac{\text{CLOSING PRICE} - \text{OFFERING PRICE}}{\text{OFFERING PRICE}}$$

Independent Variable X

1. Leverage

Leverage shows the ability of company to pay debt. High leverage indicates the risk of the company's failure to repay the loan will be even higher (Wijayanto, 2010)

Equation 2:

$$\text{DER} = \frac{\text{TOTAL DEBT}}{\text{TOTAL EQUITY}}$$

2. Auditor's reputation

Independent auditors are responsible for maintaining the quality of information circulating in the capital market by providing objective and independent opinions based on auditing results of prospective issuers' financial reports based on applicable audit standards (Aryapranata and Adityawarma, 2017). An auditor with a good reputation has a role as increasing public confidence in the accuracy of the information presented in the prospectus as a basis for analysis for making investment decisions (Rizqi and Harto, 2013). Auditor's reputation can be seen from what is included in Public Accountant Office (KAP) "The Big Four", the value is 1, which does not include KAP "The Big Four", the value is 0.

3. Underwriter's reputation

According to How and Yeo (2000), underwriters who do not have a reputation will be very careful in determining the price of IPO (Initial Public Offering) shares to avoid the risk of buying unsold shares. Because of this, they set the IPO share price to be different with the price on the secondary market, lower than. Meanwhile, underwriters who have a reputation will tend to be more willing to give high prices as a prominence of the guaranteed quality. So, the higher the underwriter's reputation will arise the lower level of *underpricing*. Reputable underwriters use a scale of 1 for highly reputable underwriters and 0 for non-reputable underwriters.

4. Company Size

Company size is a measure based on the size of the company in an industry. It can be measured by the total assets or It form of a natural logarithm (Ln) (Ramadana, 2018). This can be used as an illustration of the company uncertainty in the future. Large-scale companies are generally better known to the public than small-scale companies, so that information about the prospects of large-scale companies is easier for investors to obtain than small-scale companies, thereby reducing the occurrence of information asymmetry.

Equation 3:

$$\text{SIZE} = \text{Ln TOTAL ASET}$$

Data Analysis Techniques

Data analysis are activities of data grouping based on variables and types of sources and data tabulating based on variables from all sources. This result present data for each variable under study. (Sugiyono, 2017)

Multiple linear regression

The multiple linear regression analysis is a method that used to test a relationship between variables, dependent and independent variables. Based on this study, researchers used the E-views 10 application to facilitate data processing. The equation is

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4$$

description:

Y = *Underpricing* Level
A = Constant
B = The value of the direction as a prediction determines the value of increase (+) or decrease (-)
X_1 = *Leverage*
X_2 = *Auditor's* Reputation
X_3 = *Underwriter's* Reputation
X_4 = *Size*

Panel data regression testing begins with a classic assumption test which consists of several, the first is the multicollinearity test and the second is the heteroscedasticity test. The aim is to ensure that the regression equation model formed has estimation accuracy, is unbiased and consistent. The next stage is a model test consisting of F test, coefficient of determination test, and the last test that is carried out is the hypothesis test.

RESULTS AND DISCUSSIONS

Results

First, we have analyzed the descriptive statistics of the researched variables. After that, we have described the results in terms of IPO performance in 2014-2019. Then the regression assumptions are discussed as data normality, correlation matrix, and cross-sectional regression analysis.

Table 2
Descriptive statistics

	X1	X2	X3	X4	Y
Mean	1.043849	0.264151	0.465409	27.14299	0.365472
Median	0.649000	0.000000	0.000000	27.46600	0.496000
Max.	7.697000	1.000000	1.000000	31.26600	0.790000
Min.	0.008000	0.000000	0.000000	15.93400	0.003000
Std. Dev.	1.198523	0.442273	0.500378	2.208350	0.273746
Obs.	159	159	159	159	159

Source: Processed data

Underpricing (Y) is measured by the initial return, which is the deviation between the closing price of the shares and the offering price divided by the offering price. The average (mean) level of *underpricing* (Y) of stocks in this study was 0.3654 which means positive 36.54%. The lowest *underpricing* level of 0.0030 means 3%. The highest *underpricing* level (Y) of 0.790 means that 79%

Leverage (DER) as measured by total debt divided by total equity. The average DER value in this study was 1.0438, meaning 104.38%. The lowest DER value is 0.008. The maximum value of DER is 7,697

Auditor reputation is assessed using dummy variables, based on descriptive statistics, the mean value of 0.2641 means that 26.41% of the total sample of companies uses auditors who are included in the big four auditors. Meanwhile, 73.59% used an underwriter who did not have a high reputation score.

The reputation of the underwriter has an average value of 0.4654 (46.54%) from the total sample of companies using underwriters who have a high reputation according to the top 5 of the most active underwriters in the 50 most active brokerage monthly IDX statistics based on the frequency of total trading. Meanwhile, 53.46% of companies use auditors who are not included in the big four auditors.

Size as measured by Ln Total Asset. The average size value in this study is 27.14, which means 127.14%. The lowest size value is 15.93. The maximum value of DER is 31,266. In this study, the standard deviation of size was 2.208, meaning that this variable had a deviation of 2.684

Regression Analysis

The table below describes information from our regression model that takes market-adjusted abnormal returns as the dependent variable. The table above shows the determinants of IPO underpricing. First, we will discuss model performance. The f-statistic is 8.933266.

Table 3
Regression Models

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.213140	0.253522	-0.840719	0.4018
X1	-0.003466	0.016798	-0.206330	0.8368
X2	-0.022100	0.048143	-0.459058	0.6468
X3	-0.241762	0.044408	-5.444099	0.0000
X4	0.025744	0.009622	2.675674	0.0083

R-squared	0.189331	Mean dependent var	0.362752
Adjusted R-squared	0.168137	S.D. dependent var	0.272548
S.E. of regression	0.248582	Akaike info criterion	0.085043
Sum squared resid	9.454305	Schwarz criterion	0.181961
Log likelihood	-1.718426	Hannan-Quinn criter.	0.124403
F-statistic	8.933266	Durbin-Watson stat	1.314799
Prob(F-statistic)	0.000002		

Source: Processed data

Which shows that our model is significant. F-Statistics probability is less than 5% which indicates that the model built is very significant. In this model, it can be seen that the underwriter's reputation and size are significant variables for underpricing. Their P-Value are less than 0.05

The value is much smaller than α so it is a significant independent variable in our *underpricing* model which explains the dependent variable "underpricing" in a more comprehensive and detailed way. The relationship between the two is negative because the underwriter's reputation coefficient is -0.241762. Information asymmetry projects the idea of the unequal distribution of information among related parties in the market. Three parties are involved in the IPO transaction, namely the issuing company, the underwriter, and the investor. Therefore, some parties may have better information regarding the firm's valuation than others and thus, be able to act according to their informational advantage (Allen & Faulhaber, 1989).

Asymmetric information theory assumes that one of them knows more than the other which results in an imbalance of information that ultimately leads to *underpricing* (Akerlof, 1970). Information asymmetry between informed and uninformed investors results in varying assessments of the intrinsic value of shares. This diversity causes uncertainty about what the bid value will be when it will start trading on the market.

Discussion

The leverage determines to IPO *underpricing*. The results show that the regression significance value of the leverage variable is 0.8368, which is greater than the 0.05 significance level. The results relate with the research results of Idhar and Nuryanti (2018), Yuliani et al. (2019). These stated that the Leverage factor does not determine to IPO *underpricing*. This is because investors think that if the DER is too high, the company tends to use the proceeds from the IPO to pay off debts. The higher the DER number, it is assumed that the company has a higher risk to the company's liquidity.

The auditor's reputation determines to IPO *underpricing.* The results show that the regression significance value of the auditor reputation variable is 0.6468, which is greater than the 0.05 significance level. The results relate to previous research of Aini (2013), Kristiantari (2013) which states that auditor reputation does not determine to IPO *underpricing*. This can be influenced by the low level of investor confidence in the performance of the auditors, even though the company concerned has tried to use auditing services with a high reputation.

The underwriter's reputation determines to IPO *underpricing*. The results show that the regression significance value of the underwriter's reputation variable is 0.0000 smaller than the 0.05 significance level. The results support previous research of by Idhar and Nuryanti (2018), Sjahruddin (2013) which states that the reputation of the underwriter determines to IPO *underpricing*. An underwriter is a party that participates in determining the share price and is responsible for the sale of shares, if the shares sold are remaining, the underwriter as the underwriter is obliged to buy it. This causes underwriters who do not yet have a high reputation to try to suppress the stock price for shares.

The Size of company determines to IPO *underpricing*. The results show that the regression significance value of the size variable is 0.0083 smaller than the significance level of 0.05. The results relate to previous the research of Mayasari et al. (2018), Safitri (2013) which states that size has a determines significantly to IPO underpricing.

CONCLUSION

This study tries to determine whether the *underpricing* phenomenon exists in the context of the Indonesian stock market and examines the relationship between IPO *underpricing* on leverage, auditor reputation, underwriter reputation, and This study tries to determine whether the underpricing phenomenon exists in the context of the Indonesian stock market and examines the relationship between IPO underpricing on leverage, auditor reputation, underwriter reputation, and company size from 2014 to 2019 using a sample of 159 companies. According to the existing literature, an average of 37% of IPO *underpricing* is observed in the Indonesian market. This is mainly due to information gaps between the three parties involved in the IPO process. These are 1) IPO companies, 2) underwriters and 3) investors.

Leverage does not determine to IPO *underpricing*. These results support the research conducted by Idhar and Nuryanti (2018), Riski, and Harto (2013).

The auditor's reputation does not determine to IPO *underpricing*. These results support research conducted by Aini (2013), Kristiantari (2013).

The underwriter's reputation determines to IPO *underpricing*. These results relate to previous research of Idhar and Nuryanti (2018), Sjahruddin (2013).

Size of company determines to IPO *underpricing*. These results relate to previous research conducted of Safitri (2013) and Mayasari et al (2018).

This study cannot only use a few variables so that there are many limitations in this study and still There are other variables that determine to IPO *underpricing* that it needs more study, such as variables that reflect macroeconomic conditions.

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