

## FACTORS AFFECTING IPO UNDERPRICING

Darryl Darryl<sup>1</sup>, Yusbardini Yusbardini<sup>1</sup>

<sup>1</sup>Faculty of Economics and Business, Universitas Tarumanagara, Jakarta – 11470, Indonesia

\*Email: yusbardini@fe.untar.ac.id

Submitted: 08-06-2023, Revised: 11-08-2023, Accepted: 26-10-2023

---

### ABSTRACT

*One of the means for companies to carry out an initial offering of shares or what is commonly known as an Initial Public Offering (IPO) in the primary market. In conducting an initial share offering there is an underpricing phenomenon. Underpricing is a phenomenon where the initial offering price of shares is lower than the closing price of shares on the first day on the secondary market. The aim of this research is to determine the factors that influence the level of underpricing. The independent variables studied are company size, underwriter reputation, return on assets (ROA), and earnings per share (EPS). The population in this research is all companies that conducted an IPO on the Indonesia Stock Exchange in 2015-2020. The sampling technique uses a purposive sampling technique, namely selecting samples using predetermined criteria, so that the sample obtained is 50 companies. The analysis method in this research uses multiple linear regression. The research results show that company size has a significant effect on underpricing, underwriter reputation, and return on assets (ROA), and underpricing.*

**Keywords:** company size, underwriter reputation, return on asset (ROA), Earnings per Share (EPS), underpricing

### 1. INTRODUCTION

Of course, every company always wants to develop in order to achieve the company's goals. In this condition, the company definitely needs quite a large amount of funds. According to Endey (2015), companies will look for internal funding sources and external funding sources. External funding sources usually come from other parties or in the form of company shares offered to the public or what is usually called going public. Companies can carry out a go public mechanism by first selling their shares in an initial public offering on the primary market. In the secondary market share prices are determined by market laws, namely supply and demand, while in the primary market share prices are predetermined by the issuer and underwriter. What is very interesting is that when carrying out the mechanism of going public, a phenomenon occurs which is called underpricing and overpricing of shares. Underpricing of shares occurs if at the time of the IPO the share price in the primary market is lower than the share price in the secondary market. On the other hand, overpricing of shares occurs if the share price in the primary market is higher than the share price in the secondary market. According to Setya (2020), for companies that go public, underpricing shares will not be profitable because the funds obtained are not optimal. Therefore, company owners will minimize underpricing when going public. Several factors that can influence underpricing that will be discussed in this research are underwriter reputation, Return on Assets (ROA), company size, and Earning Per Share (EPS).

According to Darmaji (2019), underwriter is the party who makes a contract with the issuer to carry out a public offering for the issuer's interests without the obligation to buy the remaining unsold securities. Underwriters generally have better information about the issuer's shares, compared to the issuer itself. Therefore, the underwriter will utilize the information he has to obtain an optimal agreement with the issuer. It can be said that with a higher underwriter's reputation, the issuer hopes to get higher income because of the better quality of work from the

underwriter. This is proven by Juanda (2017) in research which shows that underwriter reputation has a significant influence on underpricing, however research conducted by Hendrawaty (2020) states that underwriter reputation does not have a significant influence on underpricing.

According to Fahmi (2015), Return on Assets (ROA) is a profitability ratio that can measure a company's performance ability to generate profits from the assets used. ROA is able to measure a company's ability to generate profits in the past and then projected in the future." Research conducted by Daeli (2020) proves that there is a significant influence between Return on Assets and underpricing. Adriyani (2018) states that Return on Assets does not have a significant effect on underpricing."

According to Pahlevi (2018), company size is also a factor that has an influence on underpricing. The size of the company can be seen from the field of business it runs. Company size can be determined from total sales and total assets, average sales level, and average total assets. According to Gunarsi (2020). Companies that are large are better known than companies that are small, therefore there is more information from large companies, which can reduce asymmetric information and reduce the level of underpricing. Company size has a significant effect on underpricing as proven by research by Hendrawaty (2020) but Daeli (2020) states that company size has no effect on underpricing.

According to Fahmi (2015), Earnings per Share, abbreviated as EPS, is a form of profit sharing given to shareholders. Sari (2022) defines Earning Per Share (EPS) as the level of net profit per share that a company can generate in a period. Information regarding Earnings per Share (EPS) is also very important for investors because this can describe a company's prospects in the future. Research conducted by Ayuwardani (2018) shows that earnings per share (EPS) has a significant effect on underpricing but is not in line with research conducted by Daeli (2020) which proves that EPS has no effect on underpricing. According to Setya (2020), a high level of underpricing can be detrimental to the issuer or company because the company or issuer cannot obtain the maximum amount of funds. Underpricing is caused by information asymmetry in the primary market. This information asymmetry occurs when investors do not have the same information as other investors. This happens because one investor has a lot of information about the issuer compared to other investors who only have general information that comes from the public.

## **2. RESEARCH METHOD**

### **Research Design**

This research design uses a causal associative approach, an approach that aims to identify cause and effect relationships, where one variable, namely the independent variable, influences another variable, namely the dependent variable.

### **Data Type**

According to the type, the data in this research uses quantitative data, namely information data in the form of numbers or numerical symbols, and then processed using statistical calculation techniques.

## Data Source

This research uses secondary data sourced from external data in the form of financial reports via internet media. The list of companies conducting IPOs in 2016-2020 was taken from the website [www.e-bursa.com](http://www.e-bursa.com) and information regarding financial reports along with data on company underwriter experience was obtained via the IDX website, namely [www.idx.co.id](http://www.idx.co.id)

## Population and Samples

The population in this research is all companies that conducted an IPO that were listed on the Indonesia Stock Exchange from 2016 to 2020, totaling 50 companies. In this research, the sample selection used a non-probability sampling method using the Purposive Sampling technique. The sample in this research is all companies that conducted an IPO that were listed on the Indonesia Stock Exchange from 2012 to 2016 that met the criteria.

## Operasionalization of Variables

**Table 1.** Operasionalization of Variables

Variable	Proxy	Scale
Underwriter Reputation (X1)	Dummy 1 Untuk '10 besar' Dummy 0 Untuk tidak "10 besar"	Ratio
Return on Asset (X2)	$(\text{Net Income} \div \text{Total Asset}) \times 100\%$	Ratio
Company Size (X3)	Log Total Asset	Ratio
Earnings Per Share (X4)	$\text{Net Income} \div \text{The Number of Ordinary Shares Outstanding}$	Ratio
Underpricing (Y)	$((\text{Ptl} - \text{Pto}) \div \text{Pto}) \times 100\%$	Ratio

## Data Analysis Technique

The data analysis technique uses multiple linear regression tests to test hypotheses. Before testing the hypothesis, a descriptive analysis of the research variables was carried out, then a classical assumption test was carried out, including the multicollinearity test, autocorrelation test, heteroscedasticity test, and normality test. After that, hypothesis testing and determination analysis ( $R^2$ ) were carried out using multiple linear regression analysis.

$$UP = \alpha + \beta_1 UR + \beta_2 ROA + \beta_3 CS + \beta_4 EPS + e$$

### 3. RESULT AND DISCUSSION

#### Multiple Linear Regression

**Table 2.** Multiple Linear Regression Test Results

Coefficients <sup>a</sup>							
Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	246.068	74.737		3.292	.002		
COMPAY SIZE	-7.776	2.832	.454	-2.746	.009	.642	1.558
UNDERWRITER REPUTATION	3.796	7.061	.087	.538	.004	.671	1.490
RETURN ON ASSET	-.163	.479	.092	.340	.005	.237	4.221
EARNINGS PER SHARE	-.013	.030	.113	.451	.004	.278	3.596

a. Dependent Variable: UNDERPRICING IPO

#### Coefficient of Determination Test

**Table 3** Coefficient of Determination Test Result

Model Summary				
Model	R	R-Square	Adjusted R-Square	Std. Error of the Estimate
1	.479 <sup>a</sup>	.230	.142	20.03949

a. Predictors: (Constant), UNDERWRITER REPUTATION, COMPANY SIZE, RETURN ON ASSET, EARNINGS PER SHARE

The results of the coefficient of determination test show that the overall influence of variables on underpricing is 23% and the remainder is influenced by other variables.

#### Multiple Regression Testing Results

##### 1. Company Size Variable

From the results of testing the company size variable, which has a significance level of 0.009, which is smaller than the significance level of 0.05, it can be concluded that the company size variable has a significant effect on the level of underpricing of IPO shares. Thus, this variable is in the area where H0 is rejected and H1 is accepted.

2. Underwriter Reputation Variable

From the test results on the underwriter reputation variable, which has a significance level of 0.004 which is greater than the significance level of 0.05, it can be concluded that the underwriter reputation variable has a significant effect on the level of underpricing of IPO shares. Thus, this variable is in the area where H0 is accepted and H1 is rejected.

3. Return on Asset (ROA)

From the test results on the Return on Asset (ROA) variable, it has a significance level of 0.0055 which is greater than the significance level of 0.05, so it can be concluded that the ROA variable has a significant effect on the level of underpricing of shares during the IPO. Thus, this variable is in the area where H0 is accepted and H1 is rejected.

4. Earnings Per Share

From the test results on the Earning per Share variable, it has a significance level of 0.004 which is greater than the significance level of 0.05, so it can be concluded that the ROE variable has a significant effect on the level of underpricing of IPO shares. Thus, this variable is in the area where H0 is accepted and H1 is rejected.

## **Discussion**

### **The Influence of Company Size on the Level of Underpricing of IPO Shares**

The larger the scale of the company, the lower the level of underpricing of IPO shares or can be minimized, while small scale companies have a high risk, namely a high level of underpricing. This is because investors do not believe in the company's uncertain prospects, so investors can bid a low price. and underpricing of IPO shares is difficult to avoid.

### **The Influence of Underwriter Reputation on the Level of Underpricing of IPO Shares**

The results of this research prove that the underwriter reputation variable has a significant effect on the level of underpricing of IPO shares. The influence of the underwriter's reputation on the underpricing of IPO shares can be caused by investors' trust in the information held by the issuer presented by the underwriter. Investors tend to look first at the party who is the underwriter, but investors are better able to find their own information regarding company information. The underwriter's reputation can be used as a benchmark in assessing the quality of the company.

### **The Effect of Return on Assets (ROA) on the Level of Underpricing of IPO Shares**

The results of this research prove that the ROA variable has no significant effect on the level of underpricing of IPO shares. The results of this research are in accordance with research by Sari (2016) and Endey (2015) which proves that ROA does not have a significant effect on the level of underpricing of IPO shares. Investors' distrust of the financial information presented by issuers is the reason why ROA has no effect.

### **The Influence of Earnings per Share on the Level of Underpricing of IPO Shares**

The results of this research prove that the Earning per Share variable has a significant effect on the underpricing of IPO shares listed on the IDX in 2012-2016. This is because earnings per

share is too much of a concern for investors as long as the information disclosed by the company in the prospectus is clear, especially regarding the company's ability to obtain profits per share. Thus, earnings per share have a significant influence in determining the level of underpricing of IPO shares.

#### **4. CONCLUSIONS AND SUGGESTIONS**

##### **Conclusions**

Based on the results of the analysis and discussion above, it can be concluded as follows:

1. Company size has a significant effect on underpricing of IPO shares.
2. Underwriter reputation does not have a significant effect on underpricing of IPO shares.
3. Return on Asset (ROA) does not have a significant effect on underpricing of IPO shares.
4. Return on Equity (ROE) does not have a significant effect on underpricing of IPO shares.
5. Financial leverage does not have a significant effect on underpricing of IPO shares.

##### **Suggestions**

Based on the results of the analysis and conclusions, the following suggestions can be put forward:

1. For investors

It is hoped that the results of this research will serve as consideration to help potential investors who will invest their shares in companies conducting an IPO and should pay attention to factors that significantly influence underpricing namely company size.

2. For companies (potential issuers)

Company management is expected to pay attention to the size of the company in the form of total assets so that when conducting an IPO it can minimize underpricing of IPO shares.

3. For academics

This research has many limitations, the independent variables in this research are only 5 variables, and the number of research years is only 5 years, namely 2012-2016. It is hoped that future research will add other variables such as auditor reputation, company age, offering size, type of industry, listing delay and other variables. which can influence the occurrence of underpricing of IPO shares and can increase the number of years of research. If the number of years of research is greater, the data is also greater, then the results obtained will also be more accurate.

#### **ACKNOWLEDGMENT**

I would like to thank LPPM UNTAR for providing support in the form of funding so that the results of this research can be published in the UNTAR's International Journal. There are also various parties who support this research so that it can be completed well. Thank You.

#### **REFERENCES**

- Adriyani. (2018). Pengaruh Return on Assets (ROA) dan *Earnings Per Share (EPS)* terhadap Underpricing Saham Perdana pada Perusahaan yang Terdaftar di Bursa Efek Indonesia. *FIPA: Forum Ilmiah Pendidikan Akuntansi*, 6(2).
- Ayuwardani, R. P. (2018). Pengaruh Informasi Keuangan dan Non-Keuangan terhadap Underpricing Harga Saham pada Perusahaan yang Melakukan *Initial Public Offering*

(Studi Empiris Perusahaan *Go Public* yang Terdaftar di Bursa Efek Indonesia Tahun 2011-2015). *Nominal, Barometer Riset Akuntansi dan Manajemen*, 7(1), <https://journal.uny.ac.id/index.php/nominal/article/view/19781>

Daeli, Annes Liliani., and Wijaya, Ronni Andri. (2020). Analysis of Factors Affecting Underpricing in Initial Public Offerings. *UPI YPTK Journal of Business And Economics*, 5(3), pp. 7-12.

Darmaji, T. (2019). *Pasar Modal Di Indonesia*. Penerbit: Salemba Empat, Jakarta.

Endey, Non. 2015. "Pengaruh Reputasi *Underwriter*, *Return on Asset (ROA)*, dan *Earnings Per Share (EPS)* terhadap *Underpricing Saham* pada *Initial Public Offering (IPO)* di Bursa Efek Indonesia Periode 2002-2012". *Skripsi Mahasiswa Universitas Negeri Gorontalo (UNG)*. <https://repository.ung.ac.id/skripsi/show/931411086/pengaruh-reputasi-underwriter-return-on-asset-roa-dan-earning-per-share-eps-terhadap-underpricing-saham-pada-initial-public-offering-ipo-di-bursa-efek-indonesia-periode-2002-2012.html>.

Fahmi, I. (2015). *Pengantar Manajemen Keuangan*. Bandung: Alfabeta.

Gunarsi, S. T. (2020). Apakah Faktor Eksternal Memprediksi Underpricing. *Jurnal Ilmiah Manajemen Bisnis dan Inovasi Universitas Sam Ratulangi (JMBI UNSRAT)*.

Hendrawaty, E. (2020). Analysis of Factors which Affect Company. *SSRG International Journal of Economics and Management Studies (SSRG-IJEMS)*, 73.

Juanda, A. (2017). Pengaruh Financial Leverage, ROI, ROE, Reputasi Auditor, dan Reputasi *Underwriter* terhadap Tingkat Underpricing Saham pada Saat IPO di BEI. *Jurnal Reviu Akuntansi dan Keuangan*, Vol. 4 No. 1.

Pahlevi, R. W. (2016). Analisis Faktor-Faktor yang Mempengaruhi Underpricing Saham pada Penawaran Saham Perdana di Bursa Efek Indonesia. *Jurnal Siasat Bisnis*, 18(2), 219–232. <https://doi.org/10.20885/jsb.vol18.iss2.art8>

Sari, E. P., Muthia, F., Malinda, S., Muizzudin, M., & Andriana, I. (2023). Analisis Faktor–Faktor yang Mempengaruhi Underpricing pada Saat Initial Public Offering: Studi Pada Perusahaan *Go Public* di BEI Tahun 2017-2020". *Al-Kharaj: Jurnal Ekonomi, Keuangan & Bisnis Syariah*, 5(5), 2022-2030.

Sekaran. (2017). *Metode Penelitian Untuk Bisnis: Pendekatan Pengembangan-Keahlian*. Penerbit: Salemba Empat, Jakarta.

Setya, V. A. (2020). *Jurnal Ekonomi Syariah Teori dan Terapan*, 7(5), 886.