

**THE INFLUENCE OF UNDERWRITER REPUTATION, AUDITOR
REPUTATION, COMPANY SIZE AND COMPANY AGE ON
UNDERPRICING IPO FOR COMPANIES LISTED IN INDONESIA
STOCK EXCHANGE PERIOD 2008-2013**

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ABSTRACT

This study aims to analyze the influence of non-accounting factors of the underpricing IPO stock in Indonesia Stock Exchange. In this study, the independent variables used are underwriter reputation, auditor reputation, company size and company age, while the dependent variable in this study is the initial return. The data used in this study are secondary data from the Indonesia Stock Exchange and the Indonesian Capital Market Directory (ICMD) from 2008 to 2013. Samples were selected using purposive sampling method. From 135 companies that conduct an IPO in 2008-2013, there are 85 companies that meet predetermined criteria. The method of data analysis used in this study is multiple linear regression. The analysis showed that company size and company age significantly influences the underpricing of IPO with negative direction. While the underwriter's reputation and the reputation of the auditor no significant effect on IPO underpricing. Limitations in this research that the criteria used to measure underwriter reputation and the reputation of the auditor only use the data tabulation of the total listed companies and the data sample in 2013 is still difficult to obtain because it has not published by the Indonesia Stock Exchange.

Keywords: *Underpricing, Underwriter Reputation, Auditor Reputation, Company Size, Company Age*

BACKGROUND

In line with economic growth, companies began to expand their business. In the process of expansion, relatively large fund are needed so the expansion can be run as planned by the company. Funding requirements can be achieved in many ways, first by doing a loan through a bank or other financial institution and the second way is offering shares to the public with an IPO (Initial Public Offering). An issuing firm has many advantages of raising equity through initial public offering which are not available if it raises equity through the private sources. The firm can raise a larger amount of equity, gets listed on the stock exchange(s) which makes shares more liquid through trading in the secondary capital market and the listed stock can be used for merger and acquisition deals.

In the process of go public, before the shares are traded in the secondary market (Indonesia Stock Exchange) shares will be offered first in the primary market in which pricing is done on the basis of committing to issuers and underwriters. The price of shares offered in the primary market follows a negotiation between the issuer and its underwriters, while stock prices in the secondary market are determined through the market mechanism of supply and demand. These two pricing mechanisms can cause a difference in the stock price, resulting in underpricing or overpricing. The term „underpricing“ is used to express the difference between the offering price and the lower market-clearing price during issuance. During an IPO, underpricing occurs if the stock price is lower than the prices that occurred in the secondary market on the first day and vice versa (Beatty, 1989).

During 2008-2013, many companies are doing the IPO on the Indonesia Stock Exchange. Companies that go public in Indonesia Stock

Exchange period 2008-2013 most are underpriced and there are only 28 companies are not experienced, or as much as 79,25% over the IPO companies in 2008 to 2013 had underpriced. Underpricing phenomenon is due to several factors, the first underpricing was deliberately done to attract investors in the primary market, the second is to provide benefits to the underwriters, and the next factor is due to the asymmetry of information. Information asymmetry also occurs among fellow investors (Endah, 2011). There is a lot of information in the prospectus relating to the state of the company's public offering, both accounting and non-accounting information. One of the accounting information in the prospectus which is a concern of financial statements information that can be used as a tool to reflect on the performance and financial condition of the company, while the non-accounting information in the prospectus include underwriter reputation, independent auditors, company size, and company age (Klein, 1996).

Underwriter and auditor reputations may have more significant impact on IPO underpricing, as compared with other factors that have been examined in previous research. Information asymmetry provides underwriters with the opportunity to purchase unsold shares from the IPO at cheap prices. This causes the issuer to accept low prices for its inaugural offering, which means stock prices in the primary market are lower than the price of shares in the secondary market. The other factor affecting the underpricing of shares is the selection of trustworthy auditors. The determiner of the quality of the issuer company. Hiring a reputable auditor will reduce the chance for issuers to cheat in presenting inaccurate information to the

market and reduce the uncertainty that will affect the level of underpricing of the shares offered to the public (Holland and Harton, 1993).

The size of a firm is also a factor that influence underpricing since a larger firm usually spreads its risk over a bigger customer base, several economies, et cetera. The level of uncertainty to be faced by candidates investors about the company's future can be minimized if the issuer information obtained much (Ardiansyah, 2004).

The company age is here defined as the difference of the year of company foundation and the year in which the IPO takes place. "New" industries bear a high degree of risk, since they usually require relatively big investments in the beginning, business processes need to be established, sustainability and market size of the industry are not ascertained yet (Freygang, 1993).

Based on several studies, show that the non-accounting information contained in the prospectus is used by investors in making investment decisions in the stock market. Those studies found several factors that affect the underpricing as measured by initial return. There is a significant negative relationship between auditor reputation, underwriter reputation, firm age, and firm size with initial return. The underwriter reputation, insiders shares, offering shares, and the age of the company, a significant negative effect on initial returns (Carter and Manaster, 1990).

The age and size of the company's positive significant effect on initial returns, while the number of shares offered and the type of industry a significant negative effect on initial returns (Islam et al, 2010). Departing from the results of previous research on factors affecting underpricing still produce different findings and

inconsistencies in research results, the researchers re-examined motivated to obtain empirical evidence that can provide benefits for all parties concerned. The variables that will be examined in the study consisted of internal company variables and external company variables. Internal variables are company age, company size, while external variables are underwriter reputation, and auditor's reputation. Variables were chosen to examine because of the above studies, there are still inconsistencies in the results of the study.

Inspired by those facts and circumstances, researcher is interested in conducting a research entitling "**The Influence of Underwriter Reputation, Auditor Reputation, Company Size and Company age on Underpricing IPO in Indonesia Stock Exchange Period 2008-2013**".

RESEARCH PROBLEM

Based on the background above, the problem statements are as follows:

1. How much is the influence of underwriter reputation on IPO underpricing of listed companies in Indonesia Stock Exchange during the period 2008-2013?
2. How much is the influence of auditor reputation on IPO underpricing of listed companies in Indonesia Stock Exchange during the period 2008-2013?
3. How much is the influence of company size on IPO underpricing of listed companies in Indonesia Stock Exchange during the period 2008-2013?
4. How much is the influence of company age on IPO underpricing of listed companies in Indonesia Stock

Exchange during the period 2008- 2013?

RESEARCH METHODOLOGY

The research conduct at the companies listed on the Indonesia Stock Exchange. Data obtained from the website www.idx.co.id firms to be sampled and from Indonesia Capital Market Directory (ICMD) or Fact Book and www.e-bursa.com. The observation period of this research from 2008 - 2013.

The data will be used in this research is secondary data. The data include:

1. List the name and date of the company listed on the Stock Exchange in 2008-2013, IPO issue price and the company's closing stock price on the first day of secondary market [ww.idx.co.id](http://www.idx.co.id) or obtained from the Indonesian Capital Market Directory (ICMD) from 2008 to 2013.
2. Data auditor who audited the financial statements and total asset of the company obtained from Indonesian Capital Market Directory (ICMD) from 2008 to 2013.
3. Data underwriter name obtained from Indonesian Capital Market Directory (ICMD) from 2008 to 2013.
4. Data company's year established and IPO date obtained from Indonesian Capital Market Directory (ICMD) from 2008 to 2013 or company's official website.

The population in this study is a publicly traded company listed on the Indonesia Stock Exchange (IDX) conducting an initial public offering (IPO) with the observation that in the period 2008 to 2013. Sampling

technique in this study using purposive sampling in order to obtain appropriate samples for the purpose of research. Purposive sampling is a sampling method based on several considerations on certain criteria. Criteria of the company that will be sampled in this study are as follows:

1. The company listed on the Indonesia Stock Exchange in the period January 2008 to December 2013.
1. Companies experienced underpricing.
2. Have the information or the availability of data to be used in research.

LITERATURE STUDY

Asymmetry Theory

Information Asymmetry Theory is a theory that can be used to explain the cause of the phenomenon of underpricing the IPO shares. Information asymmetry has two main types of moral hazard and adverse selection. The hypothesis that explains the difference information asymmetry owned by issuers, underwriters, and investors (Ernyang and Husnan, 2002). Underwriters have information about the market more complete than the issuer, and the issuer's underwriter has more complete information about the condition of the issuer.

Signalling Theory

Companies that own a good quality can give signal to investors that the company is good so investors can provide a good assessment of the company's stock. The signal must be captured by the investor so the cost is not in vain and difficult or too expensive to be replicated by low-quality firm. The use of positive signals can effectively reduce the level of uncertainty faced by investors, so

investors can distinguish the quality of good and bad companies (Megginson, 1997).

Types of Capital Market

Sale of shares (including other types of securities) to the community can be done in several ways. Generally, sales are made in accordance with the type or shape of the stock market in which these securities traded. The types of capital market there are several kinds (Sunariyah, 2003), namely :

1. The Primary Market

Primary market is offering shares of the issuing company (the issuer) to investors for a specified period before the shares are traded in the secondary market.

2. The Secondary Market

Secondary market trading is defined as stocks after a period of bidding on the primary market. Therefore, the secondary market is a place where stocks and other securities are widely traded, after a period of sales in the primary market.

3. The Third Market

The third market is a trading market securities run by the broker who bring together buyers and sellers on the market during the second cap (Jogiyanto, 2003).

4. The Fourth Market (Fourth Street)

The fourth market is a form of securities trading between investors or in other words the transfer of shares from one shareholder to another holder without going through a market maker.

Initial Public Offering (IPO)

Initial Public Offering (IPO) or go public an alternative source of funding through increased equity by offering shares to the public. Law no. 8 of 1995 on Capital Market defines public offerings as securities offer activities undertaken by the issuer to sell securities to the public by the procedures set forth in applicable laws and regulations. The effect is referred to as a letter of acknowledgment securities are debt, commercial paper, stocks, bonds, evidence of debt, units of collective investment contracts, futures contracts on securities and any derivatives of securities.

Underpricing

Shares of a company that will be traded in the secondary market or are on sale on the stock exchange, the previously offered first in the primary market. Market prices sold in the primary market has been determined in advance on an agreement between the issuer to the underwriters (underwriter), while the price of the shares sold in the secondary market is determined by market supply and demand.

Underpricing is a state where the shares at the time of the IPO is lower than when it traded in the secondary market. Basically pricing shares at the initial offering to the public conducted under an agreement between the issuer to the underwriter, while stock prices in the secondary market is a market mechanism, which is based on supply and demand.

Underwriter Reputation and Underpricing

Underwriter reputation shows the quality of the underwriter itself. Underwriters (underwriter) has two functions which guarantee the stock and the stock offering price established issuer, underwriter reputation here proxied by the frequency providing

underwriter services to issuers based on IDX score for Underwriter Reputation. There is negative effect of underwriter reputation on underpricing (Belvers et.al., 1988). Prestigious underwriters reduce IPO underpricing. Prestigious underwriters associated with lower risk compared with non- prestigious IPO underwriter (Johnson and Miller, 1998).

Auditor Reputation and Underpricing

Auditors, who have a high reputation, will maintain its reputation by providing good quality of the audit results. By using the services of a professional auditor will reduce the opportunity for cheating issuers in presenting inaccurate information so that the use of a professional auditor can be used as an indication of quality corporate issuers (Holland et al., 1993).

Company Size and Underpricing

Company size can be used as a proxy for the uncertainty of the status of the company in the future. There are a variety of criteria to measure the size of the company such as the number of sales turnover, number of products, the company's capital and total assets. Total assets were considered to be able to show the size of the company because it represents the company's assets in the form of fixed assets and current assets (Carter and Manaster, 1990). Size of the company can be seen from the magnitude of the total assets of the company in the last period before the company made its first stock offering.

Company Age and Underpricing

The age of the company significant and negative effect on the level of underpricing (Beatty, 1989). The longer a firm stand that the public will get to know her and investors in particular will be more confidence in the companies that are well known and

long standing compared with a company that is relatively new (Trisnawati, 1998).

Previous Research

In the year 1990 - 1997 with sample of 151 companies, the variables analyzed, auditor reputation, underwriter reputation, firm age, the level of ownership of shares offered, ROA (Rate of Return on Total Assets), leverage, and solvency ratio. The results showed variable is only able to explain 9.2% influence on the Initial Return. Of the seven variables studied, only the underwriter's reputation and financial leverage are statistically affect the Initial Return. This study failed to find evidence that there is a relationship between auditor reputation with the level of underpricing (Daljono, 2000).

Underwriter reputation and the percentage of public offering effect on the value of offering returns of 15 days after the IPO and the company's performance 1 year after IPO (Nasirwan , 2000). In line with previous research, IPO on the JSE in 1997 - 2000 proves that underwriter reputation and financial leverage has significant effect at the level of 10 % with a negative direction on underpricing. ROA affects underpricing with significance level of 5 % with a negative direction. While the age of the company, the company's scale, and the percentage of shares does not prove to significantly affect the underpricing (Imam Ghazali and Mudrik Al Mansur, 2002).

Hyphotesis

Hypotheses which can be prepared by the author based on the background, statement of the problem, purpose of the study and the framework are:

- H1 : Underwriter Reputation negatively affects underpricing. H2 :

Auditor Reputation negatively affects underpricing.

H3 : The size of company negatively affects underpricing. H4 : Company Age negatively affects underpricing.

Coefficient of determination (R^2)

The coefficient of determination (Adjusted R^2) that is shown in the table 3.1. that indicates the ability of a multiple regression equation to show description level of the model on the dependent variable

RESULT AND DISCUSSION

Table 3.1. Coefficient of Determination (R^2)

Model Summary					
Model	R	R Square	Adjusted R Square	R	Std. Error of the Estimate
1	.596 ^a	.355	.323		.5410464

a. Predictors: (Constant), Company age, Auditor Reputation, Underwriter Reputation, Company Size

Source: Secondary Data Processed, 2014

Table 3.1. shows that coefficient of Adjusted R Square obtained is 0.323. It means that 32,3% of underpricing can be explained by underwriter reputation, auditor reputation, company size and company age as independent variables, while the rest can be explained by other factors.

F-Test shows whether all the independent variables included in the regression model have an influence collectively or simultaneously on the dependent variable. Basically F value derived from ANOVA table (analysis of variance) which can be seen in the table below

Simultaneous Significant Test (F-Test)

Table 3.2. F-Test ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
1	12.897	4	3.224	11.014	.000 ^a
Regression	23.418	80	.293		
Residual	36.315	84			

a. Predictors: (Constant), Company age, Auditor Reputation, Underwriter Reputation, Company Size

b. Dependent Variable: Underpricing

Source: Secondary Data Processed, 2014

Table 3.2. shows that the significance level (0.000) is lower than

alpha value (0.05). These results indicate that independent variables in this study

had a significant effect on underpricing simultaneously.

Partial Significant Test (t-Test)

Basically, Partial Significant Test (T-Test) shows how far the influence of independent variables individually in explaining the dependent variable. The result can be seen in Table 3.3.below.

Table 3.3.Output of Regression Analysis

Model	Unstandardized		Standardized		Sig.
	B	Std. Error	Beta	t	
1 (Constant)	-21.988	.717		-3.022	.003
	-.027	.091	-.048	-.297	.767
	.054	.159	.041	-.337	.737
	-.717	.224	-1.703	-3.196	.002
	-.823	.409	-1.146	-2.013	.048

a. Dependent Variable: Underpricing
 Sources: Secondary data processed, 2014

Based on the results of T-Test shown in Table 3.3.above, the variable company size and company age have significant effect on underpricing. It can be seen from the significant probability value for company size (0.002) and company age (0.048) that are lower than alpha value (0.05). In other hands underwriter reputation and auditor reputation have no significant effect on underpricing. It is because their probability values are above 5%. It can be seen from their significant probability values respectively 0.767 and 0.737 (sig.> 0.05).

The Influence of Underwriter Reputation on Underpricing IPO

Assessment of the effect of underwriter reputation on underpricing by using multiple regression shows were not significant result. It can be seen on the significance value of 0.767 which is higher than $\alpha = 0.05$ level. Based on the results of individual multiple regression testing can be concluded that the hypothesis H1 stated that the underwriter have negatively affect on underpricing IPO is rejected. It is because there are potential differences between companies that perform state initial public offering (IPO) in Indonesia. When viewed from the entire data companies doing an IPO between the years 2008-2013, not all companies are guaranteed by prestigious underwriters. Only 55% of

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companies are guaranteed by the high and medium reputation of underwriter. The results of this study support the research conducted by Yolana (2005) and Helen (2005). The results of this research do not support research performed by Daljono (2000), Imam Ghozali & Mudrik Al Mansur (2002), Rosyati & Arifin Sabeni (2002) in Yolana (2005) in which the underwriter reputation significantly affect underpricing.

Uninfluence of underwriters reputation on underpricing happens because reputable underwriter by the issuer does not provide a signal for investors to estimate the proper value for the company's IPO, it is supported by Triani research results (2006) that stated underwriters reputation provide a signal to the market to assess the quality of the issuer whether it is good or bad. High reputation of underwriter is a positive signal to investors in assessing IPO stock. But according to Hartono (2005) there are two conditions to be effective positive signal, the first signal must reach to potential investors and the perceived good and not easily imitated by a low-quality company. While the use of reputable underwriters relatively easily imitated by all issuers, therefore investors can not distinguish good quality issuers and bad by just looking at underwriters reputation (Hartono, 2005).

The Influence of Auditor Reputation on Underpricing IPO

Assessment of the effect of auditor reputation on underpricing by using multiple regression shows not significant result. It can be seen on the significance value of 0.737 which is higher than $\alpha = 0.05$ level. Based on the results of individual multiple regression testing can be concluded that the hypothesis H2 stated that the auditor reputation negatively affect on underpricing IPO is rejected. It is

because with high or low auditor reputation, investors still buy the company stock. The results of this study support the research conducted by Trisnawati (1998) and Daljono (2000) in Yolana (2005) and Helen (2005). However, the result of this study is unable to support research by Michaelly & Shaw (1995) in Yolana (2005) who proved the initial return is affected by auditors and Rochayani and Setiawan (2004) in Helen (2005) successfully prove a significant effect on the reputation of the auditor's decision investment on the IDX.

In theory, the selection of auditors in the audit firm also affects the underpriced stock. The high reputable auditors can be used as a sign or clue to the quality of listed companies so as to reduce the level of underpricing shares (Daljono, 2000). However, the results of this study proved that the auditor's reputation has no significant effect on underpricing. The results of this study are not relevant to the research conducted by Balver et al (1988), Beatty (1989) and Yona (2003) which stated that by using a highly reputable auditors will reduce the level of underpricing, but the results of this research in line to the research conducted by Gerianta (2008), Sandhiaji (2004) and Daljono (2000) which stated that there is no significant influence between auditor reputation with underpricing. Insignificant auditor reputation give a positive signal to provide reliable audit results, it can conclude that investors are not affected by the reputation of the CPA, both high auditors reputation and low auditors reputation are reliable.

The Influence of Company Size on Underpricing IPO

Assessment of the effect of company size on underpricing by

using multiple regression shows significant result. It can be seen on the significance value of 0.02 which is lower than $\alpha = 0.05$ level. Based on the results of individual multiple regression testing can be concluded that the hypothesis H3 stated that the company size have negatively effect on underpricing IPO is accepted. It is because firm size can be used as a level of uncertainty stocks. Large-scale companies tend to be more known to the public therefore that information about the company's prospects large-scale investors is more easily obtained than the small scale company. These results do not support of research conducted by Daljono (2000) which states that the Company's size does not significantly affect underpricing. However, these findings support the results of research conducted by Durukan (2002), which suggested a negative and significant relationship between the size of the Company with underpricing. It happen because the level of uncertainty to be faced by candidates investors about the company's future can be minimized if the issuer information obtained much (Ardiansyah, 2004). Size of the company dealing with many at least the information obtained by the investor. It will improve the assessment of the company and reduce the level of uncertainty and minimize the level of risk and initial returns (Helen, 2005).

The Influence of Company Age on Underpricing IPO

Assessment of the effect of company age on underpricing by using multiple regression shows significant result. It can be seen on the significance value of 0.048 which is lower than $\alpha = 0.05$ level. Based on the results of individual multiple regression testing can be concluded that the hypothesis H4 stated that the company age negatively affect on underpricing IPO is accepted. It is

because "New" industries bear a high degree of risk, since they usually require relatively big investments in the beginning, business processes need to be established, sustainability and market size of the industry are not ascertained yet (Freygang, 1993). The results of this study are not consistent with research that has been conducted by Nasirwan (2000), Handy (2008), Workshop (2008) and Kristiantari (2012) who showed that age was not a significant influence on the company underpricing. This study supports research Aiza (2007) which stated that the age of the firm is able to influence the level of underpricing.

The results showed that the company age significantly effect firm age underpricing. This is in line with research Son (2011) and Wulandari (2011) which states that the age of the company significantly and negatively affect on underpricing. Meanwhile the results of this study are not consistent with research that has been conducted by Nasirwan (2000), Handy (2008), Workshop (2008) and Kristiantari (2012) who showed that age was not a significant influence on the company underpricing. This study supports research by Aiza (2007) which stated that the age of the firm is able to influence the level of underpricing. Old company shows the company's ability to survive and the amount of information that can be absorbed by the public (Hadri, 2001). It adds to investor confidence in the company because of the age of the company is one of the investors consider in making the decision to invest.

CONCLUSION, LIMITATION, AND SUGGESTION

Conclusion

Based on the formulation of the problem, objectives, basic theory, hypotheses and test results it can be concluded as follows.

1. Underwriter reputation does not have significant effect on their level of underpricing negative direction. This means that both underwriters who have a high reputation and who does not have a high reputation will have an impact on the decision of investors to buy shares of companies that IPO.
2. Reputation auditor does not have effect on the level of underpricing IPO. The results of this study provide empirical evidence that audit quality was not used as a factor that could affect the underpricing IPO
3. Company size has a significant effect and the negative direction on the level of IPO underpricing. The size of the company gave a positive signal to investors to buy shares in the company
4. Company age have a significant effect on underpricing and the negative direction.

Limitation

The limitations and the opportunity for further research associated with this study are as follows:

1. The author only using data tabulation issuers to gauge the reputation of underwriters and auditors.
2. The coefficient of Adjusted R Square obtained is only 0,323. It means that only 32,3 % of underpricing that can be explained by underwriter reputation, auditor reputation, company size and company age while

the rest (67,7%) can be explained by other factors.

3. There were only 9 samples in 2013 from 33 issuers that do an IPO, this happens because ICMD 2013 have not been published therefore the required data is still hard to get.

Suggestion

Suggestions can be given from the results of this study to further research are as follows:

1. For future studies should make improvements on the effect of underwriter and auditor reputation on the underpricing, such as: The researchers are interested in conducting research in the same field could use another criteria of measurement underwriter and auditor reputation that can support the asymmetry information as the proof of its influence on underpricing.
2. Future studies are expected to select a longer time period to avoid bias, to provide more accurate results in explaining the effect of independent variable on underpricing.

Further study should add the other independent variables such as: ROE, leverage, economic conditions, government ownership, firm size, average rate, type of industry and auditor reputation

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