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The Effect of Underwriter Reputation, Auditor Reputation, and Leverage on Underpricing with Concentrated Ownership as A Moderation Variable

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ABSTRACT

This study aims to analyze: (1) the influence of underwriter reputation on the level of underpricing; (2) the influence of auditor reputation on the level of underpricing; (3) the effect of leverage on the level of underpricing; (4) the effect of ownership moderation is concentrated on the relationship between the reputation of the underwriter and the level of underpricing; (5) the effect of ownership moderation is concentrated on the relationship between auditor reputation and underpricing rates; (6) The effect of ownership moderation is concentrated on the relationship between leverage and underpricing levels. With the purposive sampling method, a sample of 363 IPO companies on the IDX in 2011-2021 was obtained. The analysis used was a moderated regression analysis, The hypothesis was tested using a t-test with a 5% alpa. The results of this study prove that: (1) the reputation of the underwriter has no effect on the value of underpricing; (2) auditor reputation has a significant negative effect on underpricing; (3) leverage has no effect on the underpricing value; (4) concentrated ownership is not a moderating variable between the underwriter reputation variable and underpricing; (5) concentrated ownership is not a moderating variable between the underwriter reputation variable and underpricing; (6) Concentrated ownership is not a moderating variable between the leverage variable and the underpricing

INTRODUCTION

The process carried out to be able to sell shares is an initial public offering (hereinafter referred to as an Initial Public Offering (IPO). The IPO is carried out by registering with the IDX as a legal business entity that carries out stock trading activities, and OJK as a state institution that supervises the capital market by meeting the requirements and being assisted by an underwriter. The sale of shares is chosen by many companies as a source of capital because it does not bring debt repayment obligations. According to (Darmadi & Gunawan, 2013) companies can enjoy a number of benefits by going public, which allows them to get additional financing for the company without any risks such as those that may arise from debt. Based on the IDX press release on December 30, 2021, as many as 54 companies conducted IPOs in 2021. The total funds collected reached 62 trillion rupiah and increased by 100 percent from 2020. This makes Indonesia survive as the Exchange with the most IPOs since 2019. Not only that, in terms of investors, it also achieved positive achievements, namely by increasing the number of domestic investors by 97.7%.

Research on IPOs, a phenomenon that has occurred and experienced until now in the IPO process is underpricing. This underpricing also occurs in almost all capital markets in the world. In Hong Kong (Keasey & McGuinness, 2008) and developing countries such as India (Deb & Marisetty, 2010). Previous studies have proven that some of the factors related to the level of underpricing are the reputation of the underwriter, the reputation of the auditor, and the leverage (Beatty, 1989).

Therefore, this study aims to analyze: (1) the influence of underwriter reputation on the level of underpricing; (2) the influence of auditor reputation on the level of underpricing; (3) the effect of leverage on the level of underpricing; (4) the effect of ownership moderation is concentrated on the relationship between the reputation of the underwriter and the level of underpricing; (5) the effect of ownership moderation is concentrated on the relationship between auditor reputation and underpricing rates; (6) the effect of ownership moderation is concentrated on the relationship between leverage and underpricing rates

Underpricing is essentially an initial stock price that is lower than the price it should be at the company's value and quality. Hasan (2013) stated that companies sell shares at underpricing prices as compensation to investors for ex-ante uncertainty due to information asymmetry. From the underwriter's side, underpricing is deliberately to maximize the absorption of shares by investors, so that the loss of liability as an underwriter is reduced (Adams & Mehran, 2008).

Prospective issuers will choose an underwriter with good quality and reputation to handle their IPO. Underwriters with a good reputation can reduce the information asymmetry between prospective issuers and potential investors (Su & Bangassa, 2011) and reduce the information asymmetry between themselves and potential issuers (Boonchuaymetta & Chuanrommanee, 2013). A good underwriter's reputation indicates that the underwriter is experienced in handling many stock offerings, so they have a better knowledge of the capital market and can determine the offering price at the time of the IPO as appropriate (Razafindrambinina & Kwan, 2013).

As a party that checks the fairness of financial statements, auditors are parties trusted by the public. They provide information that investors can use in assessing companies that are IPO. For this reason, auditors are required to have high independence and professionalism. Auditors have an important role in reducing the asymmetry of information between internal parties and potential investors by investigating whether the financial statements are in accordance with accounting principles and there are no misstatements (Beatty, 1989). Qualified auditors with a good reputation are expected to prevent and reduce malpractices and be better at finding and reporting irregularities in financial statements (Gumanti et al., 2015).

Leverage is the company's ability to utilize existing assets and resources to obtain company profits. The leverage ratio also indicates the risks that the company faces (Lee, et al., 2003). According to Gumanti (2000), leverage is divided into two, namely: financial leverage and operational leverage. In financial leverage, a company's resources and assets come from debt. When debt is included in the company's capital source, the volatility of the company's profit is higher. High volatility is a high risk that will make shareholders demand higher returns.

The ownership structure reflects the proportion of share ownership and reflects the proportion of owners' rights (Shinta & Ahmar, 2011). Concentrated ownership is one of the norms of corporate governance (Meckling & Jensen, 1976). In the context of companies conducting initial public offerings, concentrated ownership increases external control so that the value of the IPO is higher (Stoughton & Zechner, 1998). Companies with concentrated ownership tend to have high uncertainty (Harjoto & Garen, 2005) and high uncertainty will increase underpricing. Viewed from the perspective of signal theory, concentrated ownership during IPO is a high amount of retained ownership, indicating good prospects for the company in the future thereby increasing investor interest (Al-Shammari, 2013).

METHOD

This research was conducted in IPO companies on the IDX in 2011-2021. With the purposive sampling method, 363 samples were obtained. Secondary data collection techniques are carried out with documentation techniques in the form of prospectuses for the initial public offering of shares for the 2011-2021 period and information on the closing price of shares on the offering date. The data was obtained from the online portal of the Indonesia Stock Exchange (idx.co.id), The Indonesian Capital Market Institute (TICMI), and e-bursa.com which is a financial and capital market portal in Indonesia. The analysis used is moderated regression analysis. Previously, classical assumption tests were carried out: heteroscedasticity, multicollinearity, normality. The hypothesis was tested using a t-test with a 5% alpa.

RESULTS AND DISCUSSION

Results of the Classic Assumption Test

The results of the classical assumption test are summarized in the following Table 1.

Table 1 Summary of Classical Assumption Test Results

Test	Test Equipment	Result	Conclusion
Asumy Classic:			
Multicollinearity	VIF	The value is < 10	Not violated

Heteroscedasticity	Scatter Plot	Irregular images	Not violated
Normality	Kolmogorof-Smirnov	The value of sig. < 5%	*) violated

In Table 1 above, it appears that the results of the classical assumption test of heteroscedasticity, multicollinearity, show that nothing has been violated. However, the classical assumption test of normality showed < 5% (violated). However, based on the "Central Limit Theorem" by Gujarati (2016), the assumption of residual normality can be ignored if the number of observations is large enough. It is understood that the sample of this study is very large, namely 363 companies. The number of samples is quite large, far above the Slovin minimum sample formula and a sample of at least 10x the number of variables. Thus, the assumption of normality in this study can be ignored.

Multiple Linear Regression Analysis Results

The results of the double linear regression analysis are summarized in the following table 4.2

Information	Regression coefficients	p-value	Conclusion
UND (x1)	-0,783	0.191 > 5%	hypothesis-1 rejected
AUD (x2)	-0,205	0,000 > 5%	Hypothesis-2 accepted
LEV (X3)	-0,117	0.055 > 5%	hypothesis-3 rejected

Results of Moderation Multiple Linear Regression Analysis

The results of moderation double linear regression analysis are summarized in Table 4.3 below

Table 4.3 Summary of Results of Moderation Multiple Regression Analysis

Information	Regression coefficients	p-value	Conclusion
X1*Z	0,170	0.666 > 5%	hypothesis-4 rejected
X2*Z	1,411	0.731 > 5%	hypothesis-5 rejected
X3*Z	-0,064	0,215 > 5%	hypothesis-6 rejected

a. Dependent Variable: underpricing

The Influence of Underwriter's Reputation on *Underpricing*

The results of the first hypothesis test show that the reputation *of the underwriter* **has no effect** on the underpricing value*,* i support the research of (Diana et al., 2022; Martani et al., 2012; Pahlevi, 2014). Pahlevi (2014)states that all stock IPOs can use *an underwriter* with a good reputation, so the *underwriter*'s reputation is not necessarily interpreted as a good initial public offering and reduces *underpricing.* According to Diana (2022), the reputation of the underwriter does not have much effect on underpricing, because, the majority of the engagements are *full commitments* so that the offering price is more determined by underpricing and if the stock does not sell, the underwriter is willing to bear it in full.The fact that *the underwriter* sells shares at the desired price, strengthens the existence of agency conflict and information asymmetry between the company as an issuer and *the underwriter. Underwriters* are more aware of the state of the market and prioritize selling stocks so that they are sold at a price level that maximizes their profits, no matter how good the underwriter 's reputation is. According to (Dimovski et al., 2011), *underwriters* have the possibility to sell stocks at *an underprice* price according to the hypothesis stated by (Loughran & Ritter, 2004) stated that according to *The Changing of Issuer's Objective Hypothesis,* a company is willing to underprice its shares as long as it is guaranteed by an underwriter who has a good reputation. Loughran and Ritter (2004) also gave the conclusion of *The Analyst Lust Hypothesis,* that companies are willing to underprice more because *underwriters* have a larger scope of analysis. The scope of analysis is research conducted by underwriting companies on stocks in the capital market with the aim of reporting research to their clients. The market pressure to use underwriters with large research reports is quite high, and the flexibility of undewriters to set bid prices is given as compensation for the high research costs of *underwriters. Hiring an underwriter* with a good reputation and quality can be done by all prospective issuers (easy to imitate). Thus, investors cannot distinguish the quality of a good or bad issuer just by looking at the underwriters who guarantee IPO shares (Utomo, 2019).

The Effect of Auditor Reputation on *Underpricing*

The results of the second hypothesis test show that auditor reputation **has a significant** negative effect on *underpricing,* supporting previous research conducted by Razafindrambinina and Kwan (2013) that the better the quality of auditors, the smaller the underpricing value*.* The research of (Purwanto & Mahyani, n.d.) also explained that auditor reputation has a significant negative effect on *underpricing.* Auditors who have a high reputation are used as a guide to the quality of the issuer's company. Darmadi and Gunawan (2013) also stated that auditors with a high reputation have a significant role in reducing information asymmetry between companies and potential investors so that *underpricing* can be suppressed. According to Oh, et al, 2017 about auditing as a determinant of a company's eligibility for IPO, states that companies with poor performance will not be able to provide high *fees* to auditors. Large audit fees are usually related to the size of the audit company. This research is also in line with Lee et al. (2003), and Darmadi and Gunawan (2013) who prove that credible auditors will reduce the underpricing rate. The auditor's attestation of financial statements depends on the level of *disclosure* in the financial statements themselves, and attestation is very important because it plays a role in ensuring the credibility and reliability of a financial report. Reputable auditors reduce information asymmetry Darmadi and Gunawan, that financial statements that have been audited by auditors with a better reputation guarantee the content of the report.

Effect *of Leverage* on *Underpricing*

The results of the third hypothesis test show that leverage **has no effect** on the underpricing value, supporting the research of Agathee (2012), which explains that variables related to accounting variables have no effect on *underpricing.* Research in Indonesia by wahyusari (2013) and Gunawan and Jodin (2015)also did not show the effect of *leverage* on *underpricing.* This is related to the public's distrust of the information contained in financial statements and financial statements do not reflect the real state of the company. In the research of Isynuwardhana and Febryan (2022), leverage does not have a significant effect on undepricing, because the value of leverage does not necessarily reflect the level of risk faced by the company.

The Relationship Between *Underwriter* and *Underpricing* Reputation with Concentrated Ownership as a Moderation Variable

The results of the hypothesis test show that the interaction variable of underwriter *'s reputation* with concentrated ownership is to have a significance value of 0.666 >0.05 so that the fourth hypothesis is rejected. This means that the existence of concentrated ownership is not a moderating variable in the relationship between the reputation of *the underwriter* and *the underpricing.* Although not significant, the direction of the coefficient of this study supports the statement of Al-Shammari (2013) which states that concentrated ownership will be a signal regarding the quality and prospects of the company. The existence of moderating variables makes the relationship *between negative underwriter* reputation and underpricing insignificant*,* if the higher the concentrated ownership, the higher the *underwriter's reputation* and *underpricing* will decrease. Concentrated ownership in this study is not a signal that the company will have good prospects or control over management as part of *corporate governance.* In Indonesia, ownership tends to be concentrated and owned by the founding family of the company, where the management is also controlled by the founding family. This is also related to the purpose of the initial public offering which is not only to obtain capital. According to the IDX in idx.com, it is stated that the stock offering will also be a means of publication for the company, making it easier to introduce the company's products. The existence of this goal makes companies with concentrated owners tend to pay less attention to *the value of underpricing.*

The Relationship Between Auditor Reputation and *Underpricing* with Concentrated Ownership as a Moderation Variable

The results of the fifth hypothesis test of this research have a significance value of 0.731 > 0.05, indicating that this result is not significant, so the fifth hypothesis is rejected. The existence of concentrated ownership is not a signal about the quality of the company, which makes asymmetry less and affects *underpricing.* This statement is supported by Darmadi and Gunawan (2013) investors do not see ownership in a company as a quality. In the Indonesian capital market environment, concentrated ownership is still a characteristic of all companies, so it is likely that it is not something special as a signal of company quality. Stock ownership in Indonesia, as has happened a lot in the research sample, where many individual owners are still owned by old owners related to company management. The relationship between the old owner and the management can certainly affect the control of management. In Indonesia, the existence of an ownership structure may not be considered something that can increase or decrease the value of the company in the eyes of investors, because there is still intervention behavior by the old owner against the management.

The Relationship Between *Leverage* and *Underpricing* with Concentrated Ownership as a Moderation Variable

The sixth hypothesis of this study has a significance value of 0.215 >0.05 so that the sixth hypothesis is rejected. Concentrated ownership is not a moderating variable between the auditor's reputation variable and *underpricing.* The results of this study do not prove concentrated ownership as a signal regarding the quality and prospects of the company. Concentrated ownership in Indonesia is something that is characteristic of almost all companies, so it does not show the quality of the company. This study does not support the research of (Al-Shammari, 2013) which proves concentrated ownership as a moderating variable between high uncertainty during IPOs and *underpricing.* According to Darmadi and Gunawan (2013), concentrated ownership in Indonesia is not related to *underpricing* and the desire of majority owners prevents other concentrated owners. This is because in the Indonesian capital market environment, the percentage of initial share sales is still relatively small. So there will be no possibility of any other concentrated ownership even if the IPO investor is centralized. The third hypothesis regarding the moderation of concentrated ownership is rejected, meaning that the existence of concentrated ownership does not significantly reduce or increase underpricing. Widarjo et, al. (2020) said that the existence of concentrated ownership reflects the full right to control of the company, including the determination of the company's strategic policies and control over management. This power will increase the problems surrounding efforts to maximize one's own wealth and not the company and potential investors see this as poor performance in the future. Thus, it is very possible that the majority owner has his own strategy and is not affected by the price of the stock offering.

CONCLUSION

The results of this study can be concluded that: first, the reputation of the underwriter has no effect on the value of underpricing; second, auditor reputation has a significant negative effect on underpricing; third, leverage has no effect on the underpricing value; Fourth, concentrated ownership is not a moderating variable between the underwriter reputation variable and underpricing; Fifth, concentrated ownership is not a moderating variable between the underwriter reputation variable and underpricing; sixth. Concentrated ownership is not a moderating variable between leverage and underpricing variables

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