Some Factors Influencing IPO Underpricing: Evidence from Indonesian Firms

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Abstract: The purpose of this paper is to investigate some factors influencing the underpricing of initial public offerings (IPOs). The intention is to determine whether IPO firms –particularly those in certain firms of the market where information asymmetry is likely to be greatest can benefit from significantly better IPO pricing by engaging the services of differentiated reputation parties. The paper examines a broad sample of initial public offerings made between 2014-2017. It also conducts multivariate tests to assess the influence of percentage of stock offer, industry specialization, Auditor reputation and underwriter reputation on IPO underpricing. The paper finds that IPOs audited by big 4 firms and underwriter reputation experience affect significantly negative on underpricing but Industry specialization and percentage of stock offer don't influence at all. The results in this paper may not be generalizable to different countries. They do, however, appear to be robust in Indonesia throughout the four-year sample period. The paper shows that it may not be feasible for all clients in certain firms of the market. However, if they can the results suggest that they could benefit from better IPO pricing.

1 INTRODUCTION

One of the most heavily investigated areas of research in the IPO literature involves the persistent underpricing of equity securities (e.g. Ibbotson, 1975; Ritter, 1984; Loughran and Ritter, 2004). Several papers have attempted to identify factors that are responsible for the underpricing phenomenon; however, Indonesia's economic growth certainly cannot be separated from the development of business in Indonesia. Business development in Indonesia has the highest potential in Southeast Asia. This growing business environment encourages the creation of conditions where each business sector experiences intense competition. To survive or grow in conditions like this, of course, the company needs to do expansion or improvement of its business. For embodying these efforts, the company requires substantial funds.

As for fulfill the needs for these funds, companies can get them from within the company and/or outside the company. However, companies frequently find it difficult to fulfill their own funding needs. Therefore, the company will try to fulfill it with the help of outsiders. Fulfillment of funds from outside the company can be achieved by applying for interest-bearing loans from banks or selling company shares to the public (go public) through the capital market. Companies that sell their shares to the public are called issuers, those who buy stocks are called investors and their underwriters are called underwriters.

Going public brings benefits for many parties, that is not only for companies but also for management and society. The act of going public will certainly benefit the company because it is able to obtain an injection of fresh funds from the public without having to be burdened by an obligation, because the company only needs to provide returns to the community in the form of dividends according to the portion of profits derived from the company's operations. For management side, going public encourages it to work professionally. For the community, going public provides an opportunity to be able to channel excess funds in the community into more productive domain, namely the capital market than saving it in the form of savings in a bank. In addition to being able to avoid a decline in currency value due to the threat of eroded by inflation, the public can also get benefit in the form of dividends and rising stock prices (capital gains)

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and voting rights at the General Meeting of Shareholders.

Based on the transaction time, the capital market is divided into two, that is the primary market and the secondary market. Transactions that occur on the primary market are transactions when the first time securities are offered by issuers through underwriters to investors who are usually willing to buy large amounts of securities with an Initial Public Offering (IPO) mechanism. Whereas transactions that occur on the secondary market are when securities have been listed on the exchange. This transaction occurs if there is an offer from the investor who has bought securities on the primary market and there is a demand from new investors who want to buy securities on the stock exchange, so that any amount of transactions in this market will not affect the issuer's finances.

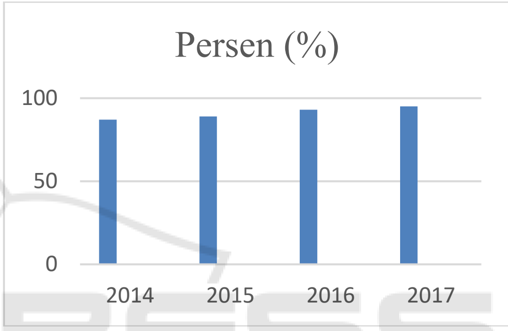
Determining the initial offering price at the time of the IPO is the most main thing. The challenge that must be faced by prospective issuers at this time is to determine the offering price of shares. This is difficult because this is the first time the shares have been offered to the public and the issuer is not aware of the market situation. If the issuer is unable to make proper judgment and proper handling, the challenge has the potential to cause problems. The problem that can arise is that the issuer's share price in the initial public offering will go to underpricing.

Underpricing is a condition where there is a positive difference that comes up because the issuer's share price on the primary market is set significantly lower than the closing price of the first day's stock on the secondary market. The underpricing condition certainly inflicts a financial loss to the issuer who need funds, because the funds received are not optimum at the time of the IPO process. However, for investors who buy shares during IPO, this condition is very beneficial because investors get an initial return. Initial return obtained by investors for being able to sell shares in the secondary market with a higher price than the price when he bought it in the primary market.

The strategy used in dealing with challenges and avoiding losses that might occur during the IPO mechanism is that the issuer requests assistance to the underwriter (underwriter) as a party that better understands the market situation. The underwriter offers shares to investors by providing information about the issuer and convincing investors to buy shares offered. The contract between the issuer and the underwriter is made in the interests of the issuer with or without the obligation to buy the remaining unsold shares. However, each party has different interests especially if the contract made is a full commitment type contract.

Share prices in the primary market are determined through an agreement between the company as the issuer and the underwriter. One side, the issuer as the party who wants the optimum fund acquisition will offer shares at a high price. However, on the other hand, if the type of full commitment is used, namely the underwriter must buy the remaining unsold shares, the underwriter will set a lower initial share price than the issuer expects. The aim is to be able to minimize the risks they bear if they fail to sell all of the issuer's shares in the primary market.

Table 1.1.



Graph of the number of companies that are experiencing underpricing

The phenomenon of underpricing in companies doing IPO often occurs in almost all countries in the world. Although theoretically, underpricing is detrimental to the issuers because it fails to get the optimum additional funding, but this still happens every year and even increases. In Indonesia, if calculated using a percentage, there is a significant increase in terms of the number of companies that experienced underpricing at the time of the IPO on the Indonesia Stock Exchange between 2014 -2017, as illustrated in the previous chart. Table 1.1 pointed out that in 2014 there were 87% of companies experiencing underpricing of the total number of companies conducting IPOs on the IDX and continued to increase in percentage throughout 2015, 2016, and 2017 in order of 89%, 93%, and 94%. This has led researchers to raise the subject of research on the phenomenon of underpricing in Indonesia.

The large percentage of shares offered to the public is one of the factors that influence underpricing because this shows how liquid the shares are to be traded on the secondary market. The smaller the percentage of shares offered to the public, the smaller the level of liquidity of the shares. Therefore, the greater the risk that must be borne by investors and will result in a higher level of underpricing. This is in line with the results of research conducted by Putro and Priantinah (2015). However, not with the results of Pahlavi's research (2014), which stated that there was no significant effect of the percentage of share offerings on the level of *underpricing*.

The risk or level of uncertainty of each industry will vary depending on the type of industry. These differences affect investors in making decisions when investing and setting bid prices because the expected level of profits will be different for each type of industry. Therefore, industrial type factors may be another reason for *underpricing*. Following the results of the study of Islam et al. (2010) which states the type of industry significantly influences the level of *underpricing*. However, it is different from the results of Junaeni and Agustian's (2013) research which shows that there is no influence of industry type on the level of *underpricing*.

The use of reputable auditors in the preparation of financial statements and prospectuses will demonstrate the quality of the issuer. If the issuer uses the services of a quality auditor, the investor will judge it as a positive signal because the issuer is considered intending to provide non-misleading information about the condition of the company.Therefore, the auditor's quality also influences the success of the IPO as indicated by the absence of *underpricing*. This is reinforced by the results of research Razafindrambinina and Kwan (2013) which shows the significant influence of the auditor's reputation on the level of *underpricing*. While the results of the Purbarangga and Yuyetta (2013) research which revealed no significant effect.

Underwriters have an important role to assist prospective issuers in dealing with the IPO mechanism. Prospective issuers, in general, will tend to have underwriters who have a good and reliable reputation. The acquisition of underwriter reputation can be caused by its success in selling large volumes of shares. The sale of large volumes of shares often occurs when shares offered by underwriters to investors are shares issued by quality issuers at underpriced prices, thus allowing investors to get an initial return. So, there is a possibility that issuers deliberately choose underwriters who are reputable to be able to offer their shares underpriced. Purwanto and Rokhimah (2017) conducted a study that resulted in the conclusion that the underwriter's reputation had a significant effect on the level of *underpricing*. However, it is different from Pahlavi's research (2014) which shows the results of the absence of influence caused by the underwriter's reputation.

2 PRIOR LITERATURE

In this section, we will explain the theories that underlie research. Besides, the following theory is also used as a reference in the formulation of hypotheses and conceptual frameworks. This is done to help researchers to analyze the results of the research obtained.

Alteza (2010) Based on the assumption of an efficient model market, the price of shares formed in the market should reflect all relevant information so that it matches the actual value. In this condition, all participants in the market have the same expectations (homogeneous expectation). However, if information asymmetry occurs, then there will be various expectations in the market (heterogeneous expectation). The more diverse the expectations of participants in the market, the greater the level of uncertainty about future share prices or ex-ante uncertainty so that the greater the cost of information must be compensated through underpricing. Following the context of this research, there are two forms of development of information asymmetry, namely the regulation hypothesis and signal theory.

According to signal theory, to minimize the information asymmetry that occurs between issuers, underwriters, and investors, financial statements and prospectuses can be published (Bini et al., 2011). The information contained in the prospectus consists of financial and non-financial information. Investors will look for information relating to the company's performance to find out the company's prospects in the future.

The auditor's reputation is non-financial information that is presented in a prospectus and can be considered by investors in making decisions. Issuers that entrust their financial statements are audited by a reputable auditor indicate that the information provided by the company is not misleading. This will reduce the level of uncertainty in the value of the company so that the possibility of underpricing can be reduced (Yanti and Yasa, 2013).

Besides, the underwriter's reputation is also included in the non-financial information presented in the prospectus. The selection of underwriters who have a good reputation by the issuer has the aim to give a signal to investors. Carter and Manaster (1990) suggested that underwriters with a good reputation will use their private information to filter out companies that will conduct an IPO and only choose to guarantee issuers that are not at high risk. This means that the better the underwriter's reputation, the smaller the level of ex-ante uncertainty that must be borne by investors.

Alli et al. in Alteza (2010) developed a theory of information asymetry by formulating a regulation hypothesis to explain the causes of further underpricing. The government generally sets more specific regulations and is accompanied by close supervision of some companies or industrial sectors in a country. The existence of these regulations requires companies to convey more precise and accurate information to the public or investors to reduce the occurrence of information asymmetry. The more even distribution of information will certainly reduce the possibility of underpricing.

The reason for underpricing can be explained through the theory developed by Ellul and Pagano (2003). This theory is a development of the seasoned securities liquidity theory in the secondary market which has expanded its application to the primary market. For underwriters, liquid shares reduce the cost of price stabilization. Meanwhile, liquid stock investors will reduce trading costs and reduce stock volatility in the aftermarket. Issuers as issuers of shares will also benefit because selling liquid shares will facilitate access to the capital market.

In trading shares, investors must bear liquidity costs that refer to the ability of a stock to be quickly converted into cash. The importance of stock liquidity to be traded in the secondary market (aftermarket liquidity) is one thing that is sufficiently considered by investors in the primary market. Based on various relevant information obtained by investors both from the prospectus and other publications, he will make expectations regarding the liquidity of these shares later when traded on the secondary market (Alteza, 2010). If the investor turns out to be expecting more illiquid shares, it means he will require greater compensation in purchasing shares in the form of a higher expected initial return. Therefore, issuers must offer shares with a higher level of underpricing.

The capital market is a market for a variety of long-term financial instruments that can be traded, both in the form of debt (bonds), equity (stocks), derivative instruments, and other instruments (Syahyunan, 2015). According to the Law of the Republic of Indonesia Number 8 of 1995, Chapter I Article 1 Item 13 Concerning Capital Market states that: "Capital market is an activity which is concerned with public offering and trading of securities, public companies relating to the issuance of their securities and related institutions and professions. with effect ". Summarizing the two meanings, it can be concluded that the capital market is similar to the market in general, namely, where the buying and selling activities take place, the difference is certainly the object being traded.

Based on the time of the transaction, the capital market is divided into two namely: the primary market (primary) and the secondary market. The primary market is a market where securities are traded for the first time, before being listed on the Stock Exchange. Actors in this market are issuers accompanied by underwriters and investors, securities offered to investors by underwriters, this process is called an Initial Public Offering (IPO). On this occasion, investors can only buy, not sell. Purchase time is also limited, i.e. only within the offer period. To buy in this market, investors must buy it through an intermediary Brokerage company appointed as an agent by the underwriter. The quantity and the high and low prices of share sales in this market will affect the total funds obtained by the issuer.

The secondary market is a market where securities have been listed on the Stock Exchange for trading. The secondary market provides an opportunity for investors to buy or sell securities listed on the exchange. So, the secondary market is a continuation of the primary market. The buying and selling process in this market no longer has to go to a brokerage company appointed as an underwriter agent, but it can go to any brokerage company. In this market, the issuer is not a market participant, so how high or low the price of shares formed in the secondary market will not affect the total funds obtained by the issuer.

Difference Between the Primary Market and the Secondary Market

Primary market	Secondary Market
Fixed share price	Stock prices fluctuate according to the strength of supply and demand
No commission is charged	Commission charged
Only for stock purchases	Applies to buying or selling shares
Orders are made through realtors	Orders are made through exchange members(broker)
Limited period of time	Unlimited period of time

To meet the funding requirements for its operations, companies can issue securities or securities such as stocks and bonds. For companies that want to offer their shares to the public for the first time (going public) must pass a stage, namely IPO. Initial Public Offering or also known as initial public offering is a processor initial stage that must be done by the company. According to Law No. 8 of 1995 concerning the Capital Market is defined that "Public Offering is a securities offering activity carried out by an issuer to sell securities to the public based on the procedures stipulated in the Capital Market Law and its implementing regulations."

Before offering shares in the primary market, the company will issue a prospectus, which is detailed information about the company, which will be announced briefly in the mass media. This prospectus serves to provide information about the condition of the company and the planned allocation of IPO funds to potential investors. Prospectus helps investors to more easily make investment decisions and look at the company's prospects going forward. The series of IPOs that will be carried out by issuers can be described succinctly as follows:

1. Due Diligence Meeting. Here the issuer as a party who will release shares holds a meeting with the designated underwriter. This is done by the procedures of the Capital Market Supervisory Agency (BAPEPAM) that the underwriter must be an intermediary between the issuer and the investor. In the meeting, the underwriter helped the issuer to follow all the regulations required for issuers who wanted to be traded on the exchange. Parties involved: underwriters (securities), independent auditors, appraisers (asset assessors) and legal consultants. The point is that each party must ensure that all regulations are met and the information presented is clear and true.

2. Public Expose and Roadshow. Through the roadshow, issuers who want to release their shares can present future developments and growth to potential investors. Generally prioritized by large prospective investors or institutions. Roadshows are held in various places and even to foreign investors. So with this roadshow, there will be more investors familiar with the condition of the issuer so that they can make an offer for book building

3. Book Building. At this stage the response of prospective investors is visible, prospective investors order how many IPO shares to buy and at what price they want to buy. Every proposed price offer will be recorded and used as a reference for determining the price of shares at the IPO. The process is called book building. Here the investors will analyze the company's condition, prospects and also compete with other investors, at this stage the price will be formed. At the time of this book building oversubscribe can also occur, ie when the number of shares ordered by prospective investors is more than that offered by issuers, of course this is good news for companies and usually results in IPO share prices reaching a maximum level. But it can also be vice versa the number of shares ordered less than offered, which is bad news for issuers.

4. Determination of Initial Price and Allotment. After going through the book building stage, then the underwriter agrees with the issuer to determine the final price. The basis for determining the IPO price is based on notes from investors. Allotment or allocation will be conducted if the number of shares ordered is more than the offering (oversubscribe) but the order is less than the offered offering, then the underwriter will absorb according to the initial agreement between the underwriter and the issuer.

Underpricing is a situation where the offering price of shares in the primary market is significantly lower than the closing price of shares in the secondary market on the first day. The level of underpricing can be measured by initial return. Initial return is the initial profit gained by investors due to a positive difference from the stock price in the secondary market at the close of the first day to the stock price in the primary market.

Aryapranata and Adityawarman (2017) suggest that underpricing occurs due to information asymmetry and differences in interests between issuers, underwriters and investors. The process of determining stock prices during the first public offering is quite difficult because there is no historical value that can be a reference. Therefore, public offerings on the primary market are often faced with the challenge of underpricing. From an issuer's point of view, underpricing is certainly detrimental because the funds obtained during the Initial Public Offering (IPO) are not optimum. If examined from the perspective of investors, underpricing is certainly very beneficial because it provides benefits in the beginning. Likewise for underwriters, underpricing is a favorable situation because it minimizes the risk they face, namely the less likely the shares will not be sold out.

However, it is not impossible for a company to deliberately offer its shares underpriced to attract investors. The rationale for companies to offer shares with an underpriced situation would have been carefully considered. Issuers have a hunch that offering an underpriced offer can give a good impression to investors. As a result, if the issuer offers shares again in the future, investors will buy again in the hope that they will get the same profit as when buying the issuer's shares in the primary market. This is what an issuer wants to achieve that intentionally offers underpriced shares.

However, in general, only financially qualified companies can carry out this strategy. Because of course underpricing will result in material losses for the issuer. However, if the issuer has prepared a plan properly and calculated it carefully, the losses suffered may be covered by the profits that will be obtained later. Because, based on the data collected it can be seen that most companies in Indonesia adopted underpricing at the time of the Initial Public offering. Although it seems that the underpricing that occurred was not intentional, it is possible that the issuer did it deliberately.

2.1 Factors Influencing Underpricing

The present study will discuss some non-financial factors that are thought to have a significant effect on the level of underpricing in companies conducting Initial Public Offering. These non-financial factors include, among others, the stock offer percentage, the type of industry, the auditor's reputation, and the reputation of the underwriter. Each of these factors will be described in more detail below:

2.1.1 Stock Offer Percentage

Company capital is the amount of capital mentioned in the deed of establishment of the company and is the maximum amount of shares authorized for the issuance of shares. The company's capital is a fixed amount. Addition or reduction is done by enlarging or reducing capital through changes in the deed of establishment.

The stock offer percentage shows how much the percentage of shares offered by the issuer to the public compared to the number of shares listed on the deed of establishment. Generally, at the initial public offering, an issuer will retain at least fifty percent of its shares so that the company's control is still fully held. The number of shares offered to the public at the time of the initial public offering was around twenty percent. The issuer's point of view is not to release too many shares during the initial public offering, but to release them in stages.

Determination of the percentage of shares to be offered to the public is quite crucial. Pahlevi (2014) states that the greater the number of shares offered to the public, the less private information a company has, as a result, the greater the uncertainty borne by investors. However, there is another perspective, namely if the shares released by the issuer to the public are considered too small, then that will cause shares to be considered illiquid and as a result the shares will not sell in the market. That is why investors will consider the percentage of stock offer as a factor in making investment decisions and determining the price to be set during the book-building process.

2.1.2 Industrial Type

The type of industry is categorized as a factor that influences underpricing because each industry has different characteristics. This difference in characteristics can lead to differences in risk and inherent uncertainty. The expected level of return of investors will also be different for each chosen sector. Investors certainly consider this to take investment decisions and to set demanding prices during the book-building process.

The types of industries in this study are classified into 2 categories, namely financial and non-financial industries. In Gwenyth and Panjaitan (2016) it is stated that in the financial industry, companies face many regulations issued by various institutions that regulate the financial sector. In Indonesia, the regulatory agencies are the Ministry of Finance, Bank Indonesia, and the Financial Services Authority (OJK). The monitoring is expected to reduce the uncertainty of financial companies compared to non-financial companies so that it is expected that the level of underpricing in the financial industry will be smaller than in other sectors.

2.1.3 Auditor's Reputation

The auditor's reputation is the good name and image owned by the auditor in the community arising from the auditor's work such for example unbiased and independent auditing results. Issuers will hire the services of independent auditors at the time of the initial public offering as explained earlier. The independent auditor has to assess the financial statements by the principles of financial accounting and provide his opinion on the company's financial statements. Financial reports expected by the market are financial statements that are free of any bias or things that can mislead users.

The company will choose a reputable public accounting firm because the auditor's reputation affects the credibility of financial statements when a company goes public. The credibility of financial statements will be very useful for investors for information in determining their investments. Highly reputed auditors have a greater commitment to maintain the quality of audits they produce so that company reports that have been given by high-reputed auditors will provide investors with greater confidence about the quality of information presented in the prospectus and financial statements of the company.

2.1.4 Underwriter Reputation

Underwriter is a private company or BUMN that is responsible for selling the issuer’s securities to investors (Syahyunan, 2015). Underwriter reputation is a name of the image obtained as a result of being able to carry out its duties and obligations as it should be able to sell all the shares it guarantees at the time of the IPO. Underwriters or commonly referred to as an emission guarantor are parties who sell securities, while issuers only issue them. Furthermore, the underwriter will service purchases by brokerage firms, which represent investors or for their portfolios. Thus, the underwriter helps the interests of the issuer more than the interests of investors. Based on the type of guarantee capability, there are four types of underwriter contracts, namely:

a. Full Firm Commitment
Under this contract the underwriter takes full risk if the shares/bonds are sold out, the underwriter will buy all the unsold shares/bonds at the same price, at the bid price to the investor in general. Guarantor of full commitment like that applies the order of selling and buying because new underwriters are required to buy the remaining shares/bonds only if they are unable to sell until they run out.

b. Best efforts commitment
In this contract, the underwriter is only required to try his best to sell the shares/bonds issued in full. There is no obligation for the underwriter to buy shares that are not sold. so, if at the end of the sale period there are still unsold shares/bonds, the shares/bonds will be returned to the issuer.

c. Standby commitment
According to this type of contract, if some stocks/bonds do not sell until the specified sales deadline, the underwriter will be willing to buy shares/bonds that are not selling. it's just that the purchase price by the underwriter is not the same as the price of the public offering.

d. All of none commitment
The underwriter will try to sell the issuer's shares/bonds until they sell well. If the offered shares/bonds do not sell well, then the shares/bonds that have been ordered, the transaction was canceled. So, all shares/bonds are not sold, returned to the issuer and the issuer does not get any funds. This commitment arises from the background that companies need capital on a certain scale. if the amount is not reached, then the company's investment is less useful. because it's better not to publish shares at all.

2.2 Prior Research

Purwanto and Rokhimah (2016) examined the effect of independent variables on auditor reputation, underwriter reputation, ROA, and financial leverage on the dependent variable, namely the level of underpricing in companies with an IPO from 2006 to 2014 on the IDX using multiple linear regression tests. The sample picker uses a purposive sampling technique, so that 110 companies are selected as research objects. the results of this study indicate that partially the underwriter's reputation has a significant negative effect on the level of underpricing, meanwhile, company size, ROA, and financial leverage do not influence the level of underpricing.

Putro and Priantinah (2015) used a multiple linear regression test in examining the influence of the independent variables of company age, company size, percentage of stock offerings, earnings per share (EPS), and market conditions on the dependent variable, namely the level of underpricing in companies that were IPO from 2012 to with 2015 on the IDX. Obtained a sample of 66 companies using purposive sampling technique. The results of this research show that EPS partially and the percentage of shares offered have a significant positive effect and firm size has a significant negative effect on the level of underpricing. However, the age of the company and market conditions proved to have no significant effect on the level of underpricing. if tested simultaneously, company age, company size, percentage of company offer, earnings per share (EPS), and market conditions are proven to have a significant effect on the level of underpricing.

Pahlevi (2014) examined the effect of independent variables on auditor reputation, underwriter reputation, percentage of stock offerings, financial leverage, ROA, NPM, current radio, company size, company age and type of industry on the dependent variable namely the level of underpricing in companies with IPO from 2000 to by 2012 on the IDX using multiple linear regression test. The results of this study indicate that partially financial leverage has a significant positive effect and ROA, NPM, current ratio, company size, and age of the company have a significant negative effect on the level of underpricing. However, the auditor's reputation, the reputation of the underwriter, the percentage of share offerings, and the type of industry does not influence the level of underpricing.

Junaeni and Agustian (2013) used multiple linear regression tests in examining the effect of the independent variable underwriter reputation, proceeds, financial leverage, and type of industry on the dependent variable, namely the level of underpricing in companies whose IPO from 2006 up to 2010 in BEL A purposive sampling technique was used in setting samples, totaling 26 samples from the existing population of 57 companies. The results of this research show that only partially the reputation of the underwriter has a significant negative effect on the level of underpricing, while the proceeds, financial leverage. And the type of industry does not have a significant effect on the level of underpricing. While tested simultaneously, the reputation of the underwriter, proceeds, financial leverage, and type of industry have a significant influence on the level of underpricing.

Purbarangga and Yuyetta (2013) use multiple linear regression tests in examining the influence of independent variables Auditor's Reputation, Company Size, Company Age, ROE, and Percentage of Stock Offer on the dependent variable that is the level of underpricing in companies that are 1PO in BEL Obtained a sample of 91 companies from 132 companies using a purposive sampling technique. The results of this study indicate, partially both the auditor's reputation, company size, company age, ROE, and the percentage of share offerings none influence the level of underpricing.

Razafindrambinina and Kwan (2013) examined the effect of the independent variable auditor's reputation and the reputation of the underwriter on the dependent variable namely the level of underpricing. The research was conducted on companies whose IPO from 2004 to 2009 on the IDX used multiple linear regression tests. The results of this study indicate partially the reputation of the auditor and the reputation of the secondary writer have a significant negative effect on the level of underpricing.Islam et al (2010) in his research using independent variables of company age, company size, type of industry, percentage of stock offerings, and time of offer to be tested for influence on the dependent variable namely the level of underpricing in the company.

The IPO from 1995 to 2005 on the Chittagong Stock Exchange used a multiple linear regression test. The results of this study indicate partially company age d company size has a significant positive effect and the type of industry and the percentage of share offerings have a significant negative effector while the time of offering does not influence the level of underpricing.

Occur to give rise to a hypothesis. This research begins by ascertaining whether companies that conduct IPOs on the Indonesia Stock Exchange in 2014-2017 experience underpricing. Observations were made by comparing the offering price of IPO shares in the primary market and the price of shares at the close of the first day on the market in the secondary.

Companies that experience underpricing are those whose bid prices at the time of the IPO on the primary market are significantly lower than the stock price at the close of the first day on the secondary market. Companies that are underpricing are then tested using multiple linear regression analysis to determine whether the percentage factor of the stock offering, the type of industry, auditor's reputation and the reputation of the underwriter partially have a significant effect on the level of underpricing. Based on the purpose of the research to be carried out as outlined previously, then the above has been proposed an overview of the conceptual framework of this research.

3 HYPOTHESIS DEVELOPMENT

Hypothesis is a temporary allegation of a study that would be done so that it can be empirically tested. Hypotheses are based on theoretical foundations, research reviews previously, and the conceptual framework with goals can be a temporary answer to see the process of analyzing research. The hypotheses formulated in the study are as follows:

3.1 Effect of Percentage of Stock Offering on the Level of Underpricing

The percentage of shares offered to the public indicates private information and the level of liquidity owned by a company. The greater the percentage of shares offered to the public, the greater the level of uncertainty in the future. This is because old shareholders will have smaller private information, so the level of uncertainty or ex-ante uncertainty borne by the new shareholders is even greater. However, on the other hand, the smaller the percentage of shares offered will cause a low level of liquidity and have an impact on the increasing liquidity risk faced by investors during the aftermarket (Alteza, 2010).

The greater ex ante uncertainty will affect the decline in investor interest in conducting investment and encourage investors to set the asking price (bid) below the fair price of the book-building process because, by taking a large risk the investor hopes to obtain compensation in the form of an initial profit that is the initial return that is possible if underpricing occurs. The smaller the percentage of the stock offering will bring greater uncertainty as well and encourage a greater level of underpricing. The results of research from Putro and Priantinah (2015) show that there is a significant influence of the percentage of share offerings on the level of underpricing. Based on the explanation above, the authors propose a hypothesis:

Ha_1: Percentage of share offerings influences the level of underpricing

3.2 The Influence of the Type of Industry on the Level of Underpricing

Different types of industries carry different risks so that they can influence investors in making investment decisions and setting asking prices(bid) at book building. The financial industry is a company that faces many regulations and supervision issued by institutions that regulate the financial sector. In Indonesia, monitoring is conducted by Bank Indonesia to reduce the uncertainty of financial companies compared to non-financial companies. Thus, the level of underpricing in the financial industry should be smaller than other sectors or there is no underpricing at all due to the small risk faced in investing in this sector. Research by Islam et al. (2010) shows the type of industry has a significant influence on the level of underpricing. Based on the explanation above, the authors propose a hypothesis:

Ha_2: The type of industry influences the level of underpricing.

3.3 The Effect of the Auditor's reputation on the Level of Underpricing

An auditor who has a reputation will be considered reliable and trustworthy results of the audit, so that investors will believe that the financial statements and prospectuses presented by the issuer show the real situation. This reduces the uncertainty that exists and reduces the risk that must be borne by investors. Investors in this situation dare to set a bid price above the fair price if the issuer concerned has a good performance and has the opportunity to succeed in the future. Therefore, the determination to use the services of auditors who have a reputation or will not affect the level of underpricing that occurs. In line with the results of the study of Lestari et al. (2015) shows that the auditor's reputation has a significant influence in minimizing the level of underpricing because auditors in good standing can make the public feel confident about the truth of the company's financial statements, so that the accounting information needed by the public to assess the company is considered more reliable. Based on the explanation above, the authors propose a hypothesis:

Ha_3: The auditor's reputation influences the level of underpricing

3.4 The Influence of Underwriter Reputation on the Level of Underpricing

The underwriter holds an important influence in the issuer's IPO process so that the selection of the right underwriter is expected to be able to realize the issuer's IPO goals. Deciding to use underwriters who have a good reputation will increase investor interest in the shares offered. This is because in general underwriters who are reputed to be more selective in choosing the company that they will guarantee to minimize the risk that must be borne.

The benchmark of underwriter's reputation in this study is the large number of shares that can be sold at an IPO. Investors are generally interested in investing in the primary market in quality issuers with good prospects going forward and hoping to obtain an initial return as a result of the price of shares offered underpriced. Assumptions in making this hypothesis, the issuer will choose a reputable underwriter to give a signal to investors that the shares offered by the guaranteed issuers are quality issuers and are offered underpriced. Following the results of research conducted by Aryapranata and Adityawarman (2017) shows the results of the underwriter reputation have a significant effect on the level of underpricing. Based on the explanation above, the authors propose a hypothesis:

Ha_4: Underwriter's reputation influences the level of underpricing

4 SAMPLE

Based on the formulation of the problem and the purpose of the study, this research is included in the type of associative research to determine the relationship between two or more variables. The relationship to be investigated is a causal relationship that is a causal relationship. One variable (independent) affects other variables (dependent). Where the dependent variable is underpricing and the independent variable is the percentage of the stock offering, type of industry, auditor's reputation and underwriter reputation.

This research was conducted at the Indonesia Stock Exchange with the help of internet media.Sites that are used to obtain variable data related to IPO include www.idx.co.id, www.rti.co.id, and www.ebursa.com. The site contains information about the IPO by the period to be investigated, namely 2014-2017. The study period starts from September to December 2018.

4.1 Dependent Variable

The dependent variable in this study is underpricing. Underpricing is proxied by calculating the initial return of the companies that make the Initial Public Offering. Initial Return is the difference between the stock price at the IPO (Offering Price) and the closing price of the first day on the secondary market.

4.2 Independent Variable

4.2.1 Percentage of Stock Offer (X1)

Percentage of share percentage : (Percentage of Offer Level offered) Denotes the ratio of shares offered to the public (Offer Size) compared to the total shares valid for sale by the issuer or with us another total shares sent in the deed (Authorized Stock).

4.2.2 Industry Type (X2)

Measurement of industrial-type variables using dummy variables. Determination of industrial-type is given a value of 1 for companies included in the financial sector and for the non-financial sector Financial industry industries consist of bank sub-sectors, financing institutions, sub-sectors insurance sector, and other financial sub-sectors.

4.2.3 Auditor Reputation (X3)

The auditor's ownership variable uses a dummy variable. This variable discusses by looking at whether the auditors used by the issuer are included in the KAP category of the Big Four Indonesia. Big Four in Indonesia include KAP Tanudiredja, Wibisana & Partners (PwC), KAP Osman Bing Satrio (Deloitte), KAP Purwantono, Suherman & Surja (EY)and KAP Sidharta &Widjaja (KPMG). If an issuer uses the services of an auditor who is a member of the Big Four KAP in Indonesia, then it is given a value of 1, conversely if the issuer uses the services of an auditor who is not included in a Big Four KAP member in Indonesia, then given a value of 0. Measurements with the same method were also carried out in Pahlevi's research (2014)

4.2.4 Reputation Underwriter (X4)

The writer's reputation in this survey was measured using varicose punitive methods. This was also carried out in the Aryapranata and Adityawarman search (2017). Underwriter reputation is measured by the ranking of the Indonesia Stock Exchange (IDX) "The Most Active IDX Members in Total Trading Volume" published on IDX Fact Book. Given a value of 1 for issuers that use the services of underwriters included in The Most Active IDX Members in Total Trading Volume, if the issuer uses the services of writers outside of the Top 10 the list will be given a value of 0.

4.3 Population and Samples

The population in this study are companies that carry out Initial public offering (IPO) for the period 2014-2017. Based on these limitations, a population of 91. companies was obtained, determining the sample in this study using a purposive sampling technique.

4.4 Data Sources

Sampling Types of data used in this study are quantitative and qualitative data with secondary data sources. According to Kuncoro(2013), quantitative data is data measured on a numerical scale (numbers) while qualitative data is data that cannot be measured using a numerical scale. However, because in statistics all data must be in the form of figures, qualitative data a generally quantified by classifying them. The data used was obtained from the financial statements of the prospectus of each company conducting an IPO on the Indonesia Stock Exchange for the 2014-2017 period.

The data collection method used in this research is the documentation study method by collecting documented data such as financial reports, prospectuses, and other supplementary data obtained from websites such as www.idx.co.id, www.rti.co.id, and o.

Researchers process data and research using the SPSS (Statistical Package for Social Science) application 23.0. The model used in this study is a multiple linear regression model. Before processing data using multiple linear regression analysis methods, the data to be used must be tested first to assess whether or not there is a bias in this study. after that will do a hypothesis test.

5 EMPIRICAL MODEL AND VARIABLES

According to Gozali (2016) regression analysis is used to measure the strength of the relationship between two or more variables, also shows the direction of the relationship between the dependent and independent variables. Multiple linear regression analysis is a linear relationship between two or more independent variables (X) with the dependent variable (Y). This analysis predicts the value of the dependent variable if the value of the independent variable increases or decreases and to determine the direction of the relationship, between the independent variable and the dependent variable whether each independent variable is positively or negatively related. The linear regression equation model in this study is as follows :

$Y = \alpha + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + \varepsilon$

Y = Underpricing

α = Constant

β1 = A supply of stocks the regression coefficient

X1 = The percentage a supply of stocks

B2 = Regression coefficient type of industry

X2 = Type of industry

B3 = The regression coefficient reputation an auditor

X3 = The reputation of the auditors

B4 = The regression coefficient reputation underwriter

X4 = The reputation of an underwriter

ε = Term of Error

The use of a fundamental weakness determination is biased towards a variable quantity that is included in the model. Every addition of one independent, R^2 would increase regardless of whether the variable had an impact in a significant way or not (Ghozali, 2016). Hence adjusted R^2 is more recommended to use because unlike R^2, the value of adjusted R^2 can increase or decrease if one independent variable is added to the model.

6 RESULTS

6.1 Descriptive Statistic

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Underpricing	79	,35	70,00	35,8493	26,91645
Percentage	79	1,02	70,00	24,3762	10,81729
Type of industry	79	0	1	,16	,373
Reputation the auditors	79	0	1	,10	,34
Reputation Underwriter	79	0	1	,44	,500
Valid N (Listwise)	79				

1. Underpricing Variable (Y) has an average value of 35,8%. This shows that those companies were selling stocks on the main market with the price lower than the price they gave when they were selling them at the secondary market reaching 35,8%. Bond issuers that experienced the highest underpricing level by 70% are Bank Agris Tbk, Sitara Propertindo Tbk, Bank Dinar Indonesia Tbk, Mitra Komunikasi Nusantara Tbk, Bintang Oto Global Tbk, Sillo Maritime Perdana Tbk, Asuransi Jiwa Syariah Jasa Mitra Abadi, Kapuas Prima Coal Tbk, Mallaca Trust Wuwungan Insurance Tbk, Ayana Land International Tbk, Megapower Makmur Tbk, Terregra Asia Energy Tbk, and Pelayaran

Tamarin Samudra Tbk. Meanwhile, the company that experienced the lowest underpricing by 1,02% is Golden Plantation Tbk. The standard deviation level from underpricing variable is 26,9.

2. The percentage variable of stocks offering having an average of 24,4%. The lowest percentage of stocks offering is 1% done by MAP Boga Adiperkasa Tbk. Meanwhile, the highest percentage of stocks offering done by Magna Investama Mandiri Tbk by 70%. The standard deviation level from stocks offering variable percentage is 10,8.

3. The variable on type of industry(X2) has a minimum of 0, a maximum score of 1, and the average value of 0,16 where there are 13 companies which included as the types of the financial industry and the rest 66 companies are included as non-financial industrial companies. The standard deviation level for the industrial variable is 0,37.

4. Variable of the reputation of auditor (X3) has a minimum of 0, maximum score 1, and average value of 0,1 where only 6 companies are using the service of public accountant with high reputation (KAP the big four) and the rest 73 companies. Public accounting firm with a low reputation. The standard deviation of the auditor's reputation variable is 0,3.

5. The underwriter reputation variable (X4) has a minimum value of 0, a maximum value of 1, and an average value of 0,44. Where 35 companies use *underwriter* services of highly reputable authors (*underwriter* who enter the top 10 in the 50 most active IDX members in total trading volume based on the IDX factbook) and the remaining 44 companies use the services of *underwriter* with low reputation. The standard deviation level of industry type variables is 0,5.

6.2 Normality Statistical Test

Multivariate Analysis
Normality Statistical Test Results
One-Sample Kolmogorov-Smirnov Test

U		Unstandardized Residual
N		79
Normal Parameters[a,b]	Mean	,0000000
	Std. Deviation	1,20207661
Most Differences	Extreme Absolute	,140
	Positive	,083
	Negative	-,140
Test Statistic		,140
Asymp. Sig. (2-tailed)		,001[c]
Montee Carlo Sig. (2- Sig.tailed)		,082[d]
99% Confidence Internal	Lower Bound	,075
	Upper Bound	,089

a. Test distribution is Normal.
b. Calculated from data
c. Lilliefors Significance Correction.
d. Based on 10000 sampled tables with starting seed 92208573

It can be seen that value test statistic Kolmogorov-Smirnov 0.014 with significance Monte Carlo sig of 0,082. So it can be concluded that the research data residual model is normally distributed, it can be seen k-s and significance of the value of greater than 0,05.

6.3 Multicollinearity Coefficientsa Test

Multicollinearity Coefficientsa Test Results

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	3,011	,383		7,864	,000		
Percentage of stock	,017	,013	,140	1,257	,213	,947	1,056
Type of industry	,048	,385	,014	,124	,901	,948	1,055
Auditor's Reputation	-	,473	-,240	-2,158	,034	,947	1,056

Dependent Variable: LnUNDERPRICING
Source: SPSS 23.0 output, researchers' processed data (2018)

The table above shows that the result of the Tolerance value calculation indicates no Independent variable that has a value of tolerance < 0.10 which means there is no correlation between an independent variable whose value is more than 95%. The result of Variance Inflation value calculation Factor (VIF) also demonstrates the same thing, not an independent variable that Has the value of VIF 10. So it can be concluded that there is no multicollinearity between variables Independent in the regression model of this research. Autocorrelation test Results.

6.4 Autocorrelation Test

Autocorrelation Test Results
Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,429[a]	,184	,140	24,96749	1,864

a. predictors : (constant), underwriter reputation, percentage, type of industry, auditor reputation
b. dependent variable: LnUNDERPRICING
source: output SPSS 23,0, researcher processing data

The results of the SPSS output table 4.3 above show the regression model DW value of 1.864. This value will be compared with the value of the Durbin Watson test bound table using a 5% confidence level, the number of research statistics (n) = 79 and the number of independent variables (k) = 4. because the DW value of 1.864 is greater than the upper limit (du) 1.7423 and less than 4-1.7423 (4-du), it can be concluded that there is no positive or negative autocorrelation or it can be concluded that there is no autocorrelation in the model of this research regression .

Heteroscedasticity test is performed to test whether in the regression model there is an unequal variance of the residuals from one observation to another observation. If the variance from one observation residual to another observation is fixed, then it is called homoscedasticity and if different, it will be calledheteroscedasticity. In this research, heteroscedasticity test is performed by looking at the plot graph (scatter plot) and the Glejser test.

7 CONCLUSION

Based on the results of this study and the discussion, the researcher draws the following conclusions:

1. Percentage of shares offering does not have a significant effect on the level of underpricing in companies conducting an initial public offering (IPO) on the Indonesia Stock Exchange in 2014-2017.
2. The type of industry does not have a significant effect on the level of underpricing in companies conducting an initial public offering (IPO) on the 2014-2017 IDX.
3. The auditor's reputation has a significant negative effect on the level of underpricing in companies conducting an initial public offering (IPO) on the Indonesia Stock Exchange in 2014-2017.
4. The underwriter's reputation has a significant negative effect on the level of underpricing in companies conducting an initial public offering (IPO) on the Indonesia Stock Exchange in 2014-2017.
5. Simultaneously the percentage of shares offering, type of industry, auditor's reputation and underwriter reputation has a significant effect on the level of underpricing in companies conducting initial public offering (IPO) on the Stock Exchange in 2014-2017.

8 SUGGESTION FOR FUTURE RESEARCH

Based on the results of the study, researchers tried to provide advice and input for several parties, namely:

8.1. For prospective investors who will invest by buying shares of companies that are IPO, should consider several factors that have been proven to significantly influence the level of underpricing in this study, namely the underwriter's reputation and the auditor's reputation. So that later can anticipate the risks that will be faced and can formulate strategies in such a way with the aim of optimizing the benefits of investment.

8.2. Issuers should estimate the objectives to be achieved when making decisions during the IPO preparation process, such as whether they want to get optimum funds at the same time during an IPO or want to make an IPO just as a start in offering company shares to the public so that they do not expect to obtain funds the optimum at the time of the IPO but expect it at the time of the issue. Determination of the objectives to be achieved will help the issuer in making decisions regarding the selection of auditor services, underwriter services, the amount of shares to be offered and so on.

8.3. For further researchers, because the value of Adjusted R^2 of this research is relatively small at 14%, it is better to be able to examine other independent variables that are expected to influence the level of underpricing of shares in companies that conduct IPOs. Because this research intentionally focuses on factors from the non-financial point of view, because researchers believe that financial factors will definitely affect the level of underpricing, but there are other factors that are suspected to have contributed to the underpricing as well as non-financial factors. Therefore, the next researcher is recommended to add other non-financial factors such as exchange rates or behavior or excessive reactions from individual investors to IPO shares.

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