



Influence of Underwriter Reputation, Firm Size, Profitability, and Offering Size on Indonesia IPO Underpricing

Alven Manasye Timothy¹, Sri Dwi Ari Ambarwati^{1*}, Hery Sutanto¹, Jubaedah¹, Catur Suratnoaji¹, Geraldus Christian Ronald¹

¹Universitas Pembangunan Nasional “Veteran” Yogyakarta, Indonesia;

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Abstract

This study examines the effect of underwriter reputation, firm size, profitability, and share offering percentage on IPO underpricing in the Indonesia Stock Exchange from 2021 to 2024. Underpricing, where the initial stock price is lower than the secondary market price, remains a frequent phenomenon in Indonesia, attracting attention from investors and issuers. This study addresses the question: How do underwriter reputation, firm size, profitability, and share offering percentage influence IPO underpricing? A quantitative approach is employed using multiple regression analysis on secondary data from companies that have conducted IPOs during the specified period. The results indicate that underwriter reputation has no significant effect on underpricing, whereas firm size, profitability, and share offering percentage hurt underpricing. These findings provide insights for investors in evaluating IPO stock prospects and for companies in designing offering strategies to minimize underpricing. This research contributes to the financial literature and serves as a valuable reference for academics, practitioners, and issuers in understanding the dynamics of the IPO market in Indonesia.

Keywords *Underwriter Reputation, Firm Size, Profitability, Share Offering Percentage, Underpricing*

INTRODUCTION

IPO underpricing, where a company's IPO price is set below its first-day closing price, is a key issue in emerging markets like Indonesia, affecting both capital raised and investor decisions. The Indonesia Stock Exchange (IDX) launched the E-IPO system in 2021 to digitize the IPO process, improving transparency, efficiency, and retail investor participation. The system addresses previous issues with stock allocation and in-person applications. The Financial Services Authority (OJK) introduced Regulation POJK 41/2020 to enhance market efficiency and retail investor involvement further.

This study examines the impact of underwriter reputation, firm size, profitability, and share offering percentage on IPO underpricing in Indonesia, focusing on IPOs from 2021 to 2024. Underpricing, measured by the initial return, averaged 16.9%, with PT Adaro Andalan Indonesia Tbk (AADI) seeing a 19.82% surge in December 2024. The study highlights the growing involvement of retail investors and the impact of digital IPO regulations (Otoritas Jasa Keuangan, 2024). Using a quantitative approach and multiple regression analysis, the research aims to provide insights for improving IPO pricing strategies and enhancing market transparency in emerging economies.

LITERATURE REVIEW

IPO underpricing occurs when the offering price is set below the first-day closing price, driven by information asymmetry, with issuers offering discounts to less-informed investors (Desiyanti, 2017). Reputable underwriters reduce uncertainty by pricing IPOs closer to fair value.

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Corresponding author's email: dwiari.ambarwati@upnyk.ac.id

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Meanwhile, larger firms, higher profitability (as indicated by ROE/ROA), and a larger share offering percentage all contribute to reducing underpricing by signalling stability, health, and liquidity. These relationships are analyzed through signalling theory, agency theory, and the Efficient Market Hypothesis (EMH).

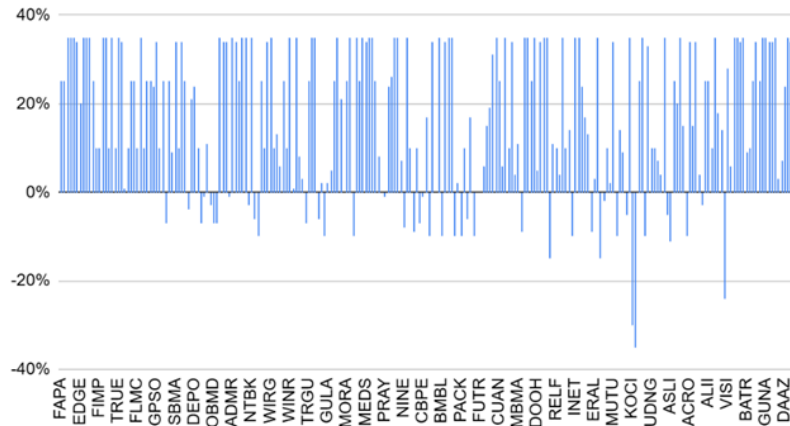


Figure 1. Initial Return Rate of IPO Companies in Indonesia (2021-2024)

Signalling Theory

According to [Spence \(1973\)](#), it involves the transmission of information from a knowledgeable party to an uninformed party. [Avrilia and Susanti \(2024\)](#) argue that investors adjust decisions based on signals received, such as positive financial information in financial statements, which can lead to increased stock trading volume and price rise.

Agency Theory

Agency theory was first introduced by Jensen and Meckling in 1976. According to Jensen, an agency relationship exists when one or more parties (principals) employ another party (the agent) to provide specific services and delegate decision-making authority. This separation has the potential to create agency conflicts between owners and management. Further, according to the description above, the framework of thought can be described as follows:

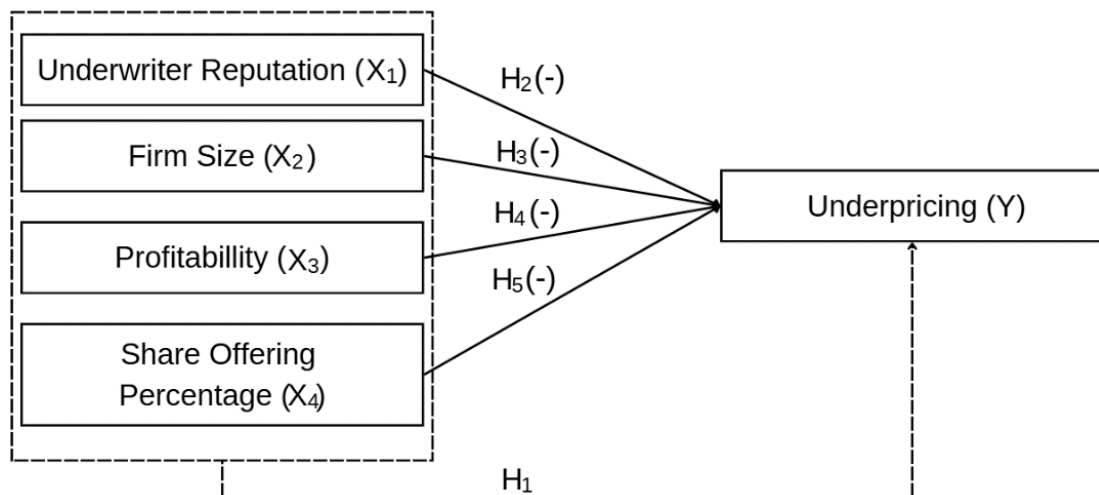


Figure 2. Conceptual Framework

Underwriter Reputation, Firm Size, Profitability, Share Offering Percentage, and Underpricing.

According to Signalling Theory, Agency Theory, and the Efficient Market Hypothesis (EMH), underwriter reputation, firm size, profitability, and the percentage of shares offered in the IPO help reduce IPO underpricing. Reputable underwriters signal quality, while larger firms and high profitability lower information asymmetry and boost investor confidence. A higher share offering percentage signals a larger price discount, and EMH suggests that more market information minimizes IPO price deviations, further reducing underpricing.

H1: Underwriter reputation, firm size, profitability, and share offering percentage collectively influence underpricing.

Underwriter Reputation and Underpricing

Sartika et al. (2022) define underwriter reputation as the quality measured by trading volume. Darmawan and Bustaman (2024) note reputable underwriters charge higher fees for accurate IPO pricing, reducing underpricing. Studies by Apsari et al. (2022), Anggraini and Trisnaningsih (2021), Alfin and Dillak (2021), and Wijaya & Kufepaksi (2023) reveal a negative relationship between reputation and underpricing, which supports signalling and information asymmetry theories.

H2: Underwriter reputation has a negative effect on underpricing.

Firm size and Underpricing

Signaling Theory, introduced by Spence (1973), explains how companies send signals to external parties, like investors, to influence their assessments. These signals, which can be direct or require interpretation, aim to reduce information asymmetry and improve transparency (Ghozali, 2020; Svetek, 2022; Scott, 2012; Yanto & Wati, 2020).

H3: Firm size has a negative effect on underpricing.

Profitability and Underpricing

High profitability attracts investors by signalling strong performance and future potential, reducing perceived risk, and aligning stock prices with fair value (Komariah & Sabrina, 2022). Higher profitability, measured by Return on Equity (ROE), negatively impacts underpricing by reducing investor uncertainty and boosting confidence in the company's prospects.

H4: Profitability has a negative effect on underpricing.

Percentage of Shares Offered and Underpricing

Rahayu and Triyono (2024) suggest that higher share offering percentages increase underpricing due to higher market uncertainty, while Hakim & Fauzan (2023) found a negative relationship, where higher share offerings reduce underpricing. A higher share offering signals confidence from existing shareholders, boosting investor trust and stabilizing prices without a significant price discount.

H5: Percentage of shares offered has a negative effect on underpricing.

RESEARCH METHOD

This study uses a quantitative approach (Sekaran & Bougie, 2017) to analyze the impact of underwriter reputation, company size, profitability, and share offering percentage on IPO underpricing. The sample includes 187 companies from 233 IPOs on the Indonesia Stock Exchange (IDX) between 2021 and 2024, with data sourced from IDX and E-IPO platforms. Multiple regression analysis, using SPSS, was employed to assess the relationships, ensuring data validity through classical assumption tests.

Table 1. Normality Test

		Unstandardized Residual
N		154
Normal Parameters	Mean	.0000000
Education	Std. Deviation	.04573929
Most Extreme Differences	Absolute	0.63
	Positive	0.49
	Negative	-.063
Test Statistic		.063
Asymp. Sig. (2-tailed)		.200
Monte Carlo Sig. (2-tailed)	Sig.	.138
	99% Confidence Interval	
	Lower Bound	.129
	Upper Bound	.147

Source: SPSS Output, 2025

Based on the results from Table 1., the Kolmogorov-Smirnov test shows an Asymptotic Significance (2-tailed) value of 0.200, which is greater than the predetermined α value of 0.05. This indicates that the residual data is normally distributed.

Table 2. Multicollinearity Test

Model (Constant)	Tolerance	VIF
Underwriter Reputation	.902	1.108
Company Size	.720	1.389
Profitability	.772	1.295
Percentage of shares	.782	1.279

Source: Data Processed (2025)

Based on Table 2., the obtained tolerance values are above 0.10, specifically 0.902 for the underwriter reputation variable, 0.720 for firm size, 0.772 for profitability, and 0.782 for the percentage of share offerings. Meanwhile, the VIF values are all below 10.00, with 1.108 for

underwriter reputation, 1.389 for firm size, 1.295 for profitability, and 1.279 for the percentage of share offerings. Thus, it can be concluded that the data is free from multicollinearity symptoms.

Table 3. Heteroscedasticity Test

Model	B	Std. Error	Std. Coefficients	T	Sig.
(Constant)	.0118	.006		3.069	.003
Underwriter Reputation	.007	.006	.093	1.112	.268
Company Size	6.4623-7	.000	.037	.398	.691
Profitability	0.14	.013	.095	1.042	.299
Percentage of shares	0.51	.027	.170	1.886	.061

Source: Data Processed (2025)

Based on Table 3 above, the significance values are 0.268 for the underwriter reputation variable, 0.691 for firm size, 0.299 for profitability, and 0.061 for the percentage of share offerings, all of which are greater than 0.05. Therefore, it can be concluded that there is no indication of heteroscedasticity in the three independent variables: underwriter reputation, firm size, profitability, and percentage of share offerings.

Table 4. Autocorrelation Test

Model R	R Square	Adjusted Square R	Std. Error	Durbin Watson
784a	.559	.547	.04067	2.128

Source: Data Processed (2025)

Based on Table 4, the obtained Durbin-Watson (DW) value is 2.128. This value is then compared with the table value d_u at a significance level of 0.05, with a sample size (n) of 154 and the number of independent variables (k) of 4, resulting in a table d_u value of 1.742. Since the obtained DW value of 2.128 is greater than the table d_u value of 1.742 and smaller than $4-d_u$ (2.258), this indicates that there is no autocorrelation in the study.

Table 5. F Test

Variable	Sum of Squares	Df	Mean Square	F	Sig
Regression	.312	4	0.78	47.172	.001b
Residual	.246	149	0.002		
Total	.558	153			

Source: Data Processed (2025)

Based on Table 5, the calculated F value is 47.172, which is greater than the F table value of 2.43, and the significance value is 0.001, which is less than 0.05. Thus, the variables of underwriter reputation, firm size, profitability, and percentage of share offerings collectively have a significant effect on underpricing.

Table 6. R Square

Model R	R Square	Adjusted Square R	Std. Error	Durbin Watson
2. 784a	.559	.547	.04067	2.128

Source: Data Processed (2025)

Based on Table 6, the coefficient of determination calculated from Adjusted R Square is 0.547. This suggests that approximately 54.7% of stock underpricing can be attributed to the independent variables included in the regression model, such as underwriter reputation, firm size, profitability, and the percentage of share offerings. Meanwhile, the remaining 45.3% of the variation in underpricing is explained by other factors not included in the regression model.

Table 7. Multiple Linear Regression Analysis

Model	B	Std. Error	Std. Coefficients	T	Sig.
(Constant)	.354	.010		35.153	.001
Underwriter Reputation	-.015	.010	-.087	-1.525	.129
Company Size	-1.615e-5	.000	-.370	-.5789	.001
Profitability	-.059	.022	-.162	-2.630	.009
Percentage of shares	-.484	.045	-.662	-10.810	.001

Source: Data Processed (2025)

Based on Table 7, the underwriter reputation variable has a significance value of 0.129, which is greater than 0.05, indicating that underwriter reputation does not significantly affect underpricing. The firm size variable has a significance value of 0.001, which is less than 0.05, indicating that firm size has a significant effect on underpricing. The profitability variable has a significance value of 0.009, which is also less than 0.05, indicating that profitability has a significant effect on underpricing. Similarly, the percentage of share offerings variable has a significance value of 0.001, which is less than 0.05, indicating that the percentage of share offerings has a significant effect on underpricing.

FINDINGS AND DISCUSSION

This study finds that firm size, profitability, and the percentage of shares offered significantly reduce IPO underpricing, while the reputation of the underwriter has no significant effect on this outcome. Larger companies reduce information asymmetry, higher profitability boosts investor confidence, and a smaller share offering signals strong prospects, all of which contribute to reduced underpricing. These results support the Signaling Theory and the Efficient Market Hypothesis (EMH) but contradict those of Nuralifah et al. (2024). The non-significant impact of underwriter reputation is explained by Agency Theory, suggesting underpricing may sometimes be used strategically.

The reputation of the underwriter does not have a significant impact on underpricing, as various other factors also influence this decision. Based on Signaling Theory, although an underwriter's reputation can serve as a positive signal to investors regarding the quality of an IPO company, such a signal is not considered strong by investors, as any company can use a reputable underwriter, making it difficult for investors to distinguish the quality of the issuers effectively.

CONCLUSIONS

This study examines the factors influencing IPO underpricing on the Indonesia Stock Exchange (IDX) from 2021 to 2024, focusing on underwriter reputation, company size, profitability, and the percentage of shares offered. The findings show that underwriter reputation does not significantly affect underpricing. In contrast, company size, profitability, and share offering percentage all have a negative relationship with underpricing, meaning larger companies, more profitable firms, and those offering more shares tend to experience lower underpricing.

LIMITATIONS & FURTHER RESEARCH

This study is limited by its focus on IPOs listed only on the IDX during the 2021–2024 period and by the exclusion of external macroeconomic and behavioral factors that may also influence underpricing. Future research could expand the dataset to include longer timeframes, cross-country comparisons, or additional variables such as market conditions, investor sentiment, and regulatory developments like the E-IPO system. Examining sector-specific characteristics may also provide deeper insights into the dynamics of IPO underpricing in Indonesia's capital market.

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