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The Effect of Auditor's Reputation, Underwriter's Reputation, and Price to Book Value (PBV) on Underpricing IPO on the Indonesia Stock Exchange

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ABSTRACT: This study investigates the impact of auditor reputation, underwriter reputation, and Price to Book Value (PBV) on IPO underpricing among companies listed on the Indonesia Stock Exchange (IDX). The primary objective is to analyze how these factors influence underpricing during initial public offerings (IPOs). The analysis employs a multiple linear regression model using EViews 12. The sample, selected through purposive sampling, consists of 173 companies conducting IPOs on the IDX between 2022 and August 2024, of which 131 exhibited underpricing. The findings indicate that auditor reputation has a significant positive effect on IPO underpricing, while underwriter reputation and PBV do not exhibit any significant influence. The results suggest that auditors with strong reputations and extensive IPO experience may inadvertently contribute to heightened underpricing. This may reflect investors' overreliance on offered stock prices during IPOs, potentially stemming from limited competence in evaluating firm performance. This study offers valuable insights for investors, serving as a reference to support more informed investment decisions.

KEYWORDS: Auditor's Reputation, Price to Book Value (PBV), Signalling Theory and IPO Underpricing, Underwriter's Reputation.

I. INTRODUCTION

In today's rapidly evolving business environment, companies are compelled to manage continuous pressures for growth as a prerequisite for survival and competitive advantage. This aligns with organizational growth theory, which underscores that an organization's long-term sustainability can only be achieved through a strategic combination of capacity expansion, innovation, and resource optimization. Companies that fail to grow risk market exit and even bankruptcy. Thus, business growth constitutes a fundamental component in establishing and sustaining competitive advantage, enabling firms to endure intensifying global competition. However, in maintaining their operations, many companies are unable to independently meet the substantial funding and capital requirements. Consequently, relying solely on internal funding sources proves inadequate (Khairina, Arfan, & Indayani, 2023). In addition to securing credit loans, one of several methods companies employ to raise additional capital is issuing shares in the secondary trading market, a process more commonly known as an Initial Public Offering (IPO).

When determining the amount of funds a company can raise, the initial offering price of the stock plays a pivotal role, as shares are sold to the public. Companies typically aim to set a high offering price. The initial offering price is established through an agreement between the IPO-bound company and the underwriter, which serves as the capital market intermediary responsible for underwriting or guaranteeing the sale of shares during the primary market phase. Each party has its own interests; companies seek to achieve a higher stock price at the initial offering to maximize capital inflow, while underwriters tend to prefer setting IPO prices lower to reduce potential gains for IPO investors. Across most global capital markets, a common phenomenon accompanying IPOs is underpricing (Kennedy, Sitompul, & Tobing, 2021). Underpricing describes a situation where the closing price exceeds the opening price (Laksono & Lasmanah, 2022). This condition is unfavorable for companies, as it results in suboptimal funds raised during the IPO. Although from an investor's perspective, this can be advantageous, providing a high initial return, the number of companies pursuing IPOs continues to increase. This is because prospective issuers still seek funding through IPOs to support their business expansion.

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Figure 1.1 Firms undertaking IPOs from 2022 up to August 2024

Year	*Total Companies Engaged in the IPO*	*Underpricing*	*Overpricing*	*Consistent*	*Underpricing Percentage*
2022	59	47	10	2	80%
2023	79	54	22	3	68%
2024	34	30	4	-	88%
Total	**172**	**131**	**36**	**5**	

Source: Indonesia Stock Exchange, data processed (2024)

Figure 1.1 presents data on (IPO) activities on the Indonesia Stock Exchange (IDX) during the period from 2022 to August 2024. A downward trend in the number of companies conducting IPOs is observed in 2024 compared to the previous year. Amidst this decline in IPO activity, the underpricing percentage notably peaked in 2024. This situation creates a dilemma for companies: on one hand, they incur losses due to reduced funds raised, yet on the other, investors benefit. The reputation of the underwriter plays a critical role in determining the stock price during an IPO. High-reputation underwriters are unlikely to guarantee shares for companies with poor reputations, thus instilling confidence among investors (Pratama, 2017, cited in Khairina, Arfan, & Indayani, 2023).

Signaling theory explains that information regarding a company's future prospects provides either a positive or negative signal to investors in their decision-making process. Investors are more likely to view a company favorably when it is in strong condition, as this allows for a high initial stock price in the primary market, often resulting in undervaluation when traded in the secondary market (Diva, 2018, cited in Mulyani & Maulidya, 2021). Information provided by the company to prospective investors reduces the degree of information asymmetry, thereby helping to minimize undervaluation of shares. By employing a reputable auditor, companies send a signal regarding the quality of the issuer, which can help reduce the likelihood of share undervaluation during the IPO process (Mulyani & Maulidya, 2021).

The Price to Book Value (PBV) ratio is an indicator that reflects how the market values a company's book value. When a company's PBV exceeds its book value, it may signify that the market holds strong confidence in the company's promising future prospects. In practice, investors frequently use the PBV ratio as a tool to assess a company's performance and value before making investment decisions. A high PBV ratio generally shows that the market places a high value on the company's shares. The further the stock price exceeds its book value, the greater the potential return investors might achieve from investing in that stock (Darmadji & Fakhruddin, 2001, cited in Laksono & Lasmanah, 2022).

II. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

2.1 Initial Public Offering (IPO)

An IPO is a significant step in which a company makes its common shares available to the public for the first time, allowing the public to purchase ownership in the company (Reber, Gold, & Gold, 2022). At this stage, a company previously privately owned by a small group of investors, owners, or limited shareholders begins to offer an opportunity for anyone in the capital market to acquire a stake in the company. This transition signifies a major shift from private ownership to public company status, enabling its shares to be freely traded on a stock exchange. The process is often aimed at raising substantial capital to support business expansion, increase liquidity, and strengthen the company's market position. Across most global capital markets, a common phenomenon accompanying IPOs is underpricing (Kennedy, Sitompul, & Tobing, 2021).

2.2 Underpricing IPO

Underpricing refers to a condition in which the stock's closing price on its first trading day exceeds the opening price during the IPO. (Laksono & Lasmanah, 2022). This phenomenon is considered disadvantageous for companies conducting an IPO, as the funds raised from share sales at the IPO fail to reach their full potential. Underpricing effectively represents a missed opportunity for companies to secure additional capital, as shares sold to the public are priced below their actual market value on the first day of

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listing. This can reduce the amount of capital raised by the company, ultimately impacting its expansion plans or operational activities.

2.3 Signalling Theory and IPO Underpricing

Ljungqvist (2007), as cited in (Baker, Boulton, Braga-Alves, & Morey, 2021), explains that one of the main causes of underpricing in the IPO process is the imbalance or uneven distribution of information among the various stakeholders involved (Mahardika & Ismiyanti, 2021). The phenomenon of IPO underpricing can be comprehensively explained through signaling theory. Signaling theory describes how parties with asymmetrical information use specific signals to convey that information to less-informed parties. In the context of an IPO, companies typically provide information highlighting favorable conditions, such as increasing sales trends presented in the prospectus. This information serves as a positive signal for investors in deciding whether to invest in the company (Miqdaq & Oktaviani, 2020). To mitigate the effects of information asymmetry, companies use various signaling mechanisms, one of which is appointing a reputable auditor.

The auditor's reputation plays a crucial role in reducing underpricing levels when a company goes public. A highly reputable auditor's reputation provides credibility to the company's financial statements, thereby reducing the information imbalance between the IPO company and potential investors. Research by Wittianjani & Yasa (2020) indicates that companies employing reputable auditors are more likely to have IPO prices closer to the true market value, which reduces underpricing. Thus, choosing a reputable auditor can be a strategic step in enhancing investor perceptions of the IPO company. This theory aligns with research by Park & Massel (2022), which shows that auditors specializing in IPOs can significantly lower underpricing levels. In other words, auditor with IPO experience are better equipped to reduce information asymmetry, thereby increasing investor confidence in the company's market valuation. In Indonesia, a study by Rini & Damayanty (2024) found similar results, showing that the auditor's credibility significantly reduces IPO underpricing. In contrast, research by Nazihah, Rosnidah, & Juwenah (2020) yielded opposite results, showing that the perceived credibility of the auditor exerts a significantly positive impact on IPO underpricing levels. This finding suggests that auditor with extensive IPO experience may actually contribute to increased underpricing. These results indicate that in some cases, the reputation and experience of the auditor may prompt investors to exercise greater caution, raising expectations and thereby widening the gap between the IPO price and the true market value.

2.4 Underwriter's Reputation and IPO Underpricing

Public offerings, whether in the form of stocks or bonds, are typically marketed by investment banks known as underwriters (Adnyana, 2020). The reputation of an underwriter plays a crucial role in mitigating underpricing during an IPO. The opening price of the shares is determined through an agreement between the company planning the IPO and the underwriter, which serves as a capital market intermediary, guaranteeing the issuance or sale of the shares during the primary market offering period. Reputable underwriters are generally more adept at setting a precise stock price, based on a thorough assessment of the company's condition and market dynamics. Experienced underwriters can thus help minimize the gap between the initial offering price and the true market value, thereby reducing the likelihood of underpricing.

This theory aligns with findings from research by Sundarasen, Kamaludin, Ibrahim, Rajagopalan, & Danila (2021), which demonstrates that underwriter reputation has a significant impact on the level of IPO underpricing. In Indonesia, research by Isnaeni, Najmudin, & Shaferi (2020) found that underwriter reputation has a positive effect on IPO underpricing. In other words, the higher the underwriter's reputation, the higher the level of underpricing, and vice versa. This finding suggests that although high-reputation underwriters are often expected to provide a positive signal to investors, in some cases, this strong reputation can increase market expectations, ultimately widening the gap between the initial offering price and the actual market price. In contrast, research by Jayanarendra & Wiagustini (2019) found that underwriter reputation does not influence the level of IPO underpricing. This finding diverges from other studies that suggest a relationship between underwriter's reputation and underpricing, indicating that other factors may play a more prominent role in determining the discrepancy between the initial offering price and the post-IPO market price, while underwriter's reputation does not directly affect this phenomenon.

2.5 Price to Book Value (PBV) and IPO Underpricing

Price to Book Value (PBV) ratio is often employed by investors as an essential analytical tool to assess a company's performance and value before making investment decisions. The PBV ratio gauges how much a company's market value surpasses its book value. A high PBV typically suggests that the market values the company's stock higher than its book value. In this context, the greater the

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share price exceeds its book value, the higher the potential return investors might achieve from investing in that stock. As described by Darmadji & Fakhruddin (2001, in Laksono & Lasmanah, 2022), a high PBV ratio is often viewed as an indicator that a company has strong prospects and can create added value for shareholders.

This theory is consistent with research by Jaya & Kuswanto (2021) and Azzuhrufi & Putri (2024), which found that the PBV ratio has a significant positive effect on the level of underpricing in IPOs. Their studies suggest that companies with higher PBV ratios tend to experience greater underpricing when conducting an IPO. This is due to heightened market expectations regarding the company's growth potential and profitability, leading to a larger discrepancy between the initial offering price and the market price post-IPO. In other words, investors are inclined to perceive high-PBV stocks as more favorable investment opportunities, which ultimately increases demand and causes the stock price to surge following the IPO. In contrast, research by Laksono & Lasmanah (2022) yielded different results, finding that the PBV ratio has no effect on the level of IPO underpricing. This finding indicates that, while PBV is commonly used by investors as an evaluation tool, other factors may, in certain cases, play a more dominant role in influencing underpricing.

2.6 Hypothesis Development

Based on the differing results of previous studies, the author is interested in re-examining the effect of auditor's reputation, underwriter's reputation, and price-to-book value (PBV) on IPO underpricing to determine whether the findings are consistent with or contrary to prior research. Based on this information, the research questions formulated are as follows:

H1. Auditor's reputation, underwriter's reputation, and price-to-book value (PBV) have a positive simultaneous effect on IPO underpricing
H2. Auditor's reputation has a positive effect on IPO underpricing
H3. Underwriter's reputation has a positive effect on IPO underpricing
H4. Price-to-book value (PBV) has a positive effect on IPO underpricing

III. RESEARCH METHODOLOGY

This study uses a quantitative approach to test the hypothesis concerning the relationship between auditor reputation, underwriter reputation, and Price to Book Value (PBV) in relation to the underpricing levels during IPOs on the Indonesia Stock Exchange from 2022 to 2024. The data will be analyzed using multiple linear regression models. Before conducting the multiple linear regression tests, two preliminary examination stages will be performed: descriptive statistical tests and classical assumption tests.

3.1 Auditor's Reputation and Underwriter's Reputation

One widely used method for assessing underwriter rankings in the context of IPOs is the Carter-Manaster rank developed by Carter and Manaster in 1990 (Hu et al., 2021). This method is based on the underwriter rankings presented in the IPO tombstone announcements, which provide crucial information regarding the transaction. However, the application of this method in the Indonesian capital market is not feasible due to the absence of an official body in Indonesia authorized to publish such underwriter ranking lists.

In Indonesia, the most common assessment method used to measure auditor reputation is through a dummy variable, where Big 4 auditors are assigned a value of 1, while non-Big 4 auditors receive a value of 0. This study ranks the reputation of auditors and underwriters based on the number of companies they have handled during the execution of IPOs from 2022 to August 2024. Through this approach, it is expected to offer a deeper and more accurate analysis of the roles and contributions of auditors and underwriters in the context of IPOs in emerging markets. Consequently, the results of this research are anticipated to provide a clearer understanding of the dynamics and effectiveness of these two entities in supporting the IPO process, as well as to offer guidance for stakeholders involved in capital market activities.

3.2 Price to Book Value (PBV)

Price to Book Value (PBV) is a ratio used to compare a company's market share price with its book value per share, aiming to assess whether the company's stock price is considered overpriced or underpriced in relation to the net asset value it holds. The systematic formula for calculating Price to Book Value (PBV) is as follows:

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$$\text{PBV} = \frac{\text{Stock Price}}{\text{Book Value}}$$

3.3 Underpricing IPO

Underpricing refers to a condition in which the closing price is higher than the opening price during an IPO. The systematic formula for calculating IPO underpricing is as follows:

$$\text{Underpricing IPO} = \frac{\text{P1} - \text{P0}}{\text{P0}}$$

Where P1 represents the price at the close of the first trading day, and P0 is the offering price at the time of the IPO.

3.4 Sample Selection

The sample for this study is selected using a purposive sampling method, a technique that targets samples based on specific criteria aligned with the research objectives. The research sample is as follows:

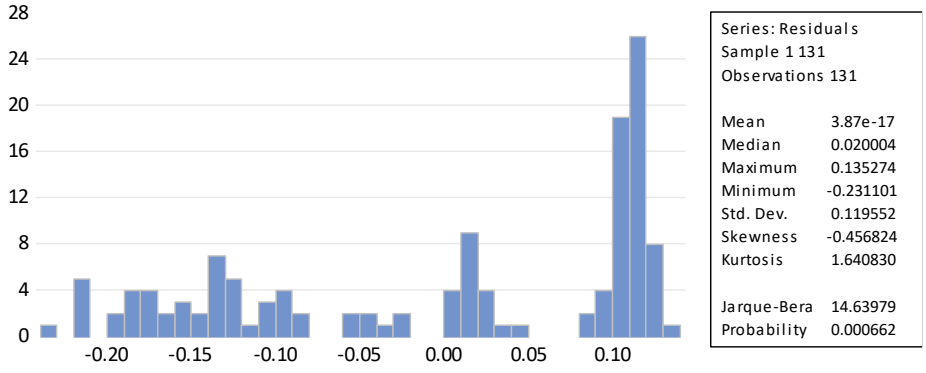
No	Criteria	Total
1.	Total number of companies that carried out an IPO from 2022 to August 31, 2024	172
2.	Total number of companies experiencing overpricing	(36)
3.	Total number of companies maintaining consistent pricing	(5)
	Total Samples	**131**

Source: Indonesia Stock Exchange, data processed (2024)

IV. RESULT AND DISCUSSION

Testing for classical assumptions is an essential statistical step in multiple linear regression analysis using the Ordinary Least Squares (OLS) method. The primary goal of this testing is to ensure that the resulting regression model provides accurate, unbiased estimates and meets optimal consistency standards (Sholihah, Aditiya, Evani, & Maghfiroh, 2023). The outcome of the normality test is presented in Figure 4.1 below.

Figure 4.1 Normality Test Results



Data processed (2024)

Based on Figure 4.1, an issue with the regression data was identified, as it did not meet the normality assumption, with a probability value of 0.0006, which is below the significance level of 0.05. To address this issue, outlier detection was conducted. The detection results indicated that 39 company data points needed to be excluded from the sample due to being considered outliers. After removing the outliers, the research sample was reduced to 92 companies. Subsequently, the outlier-free sample was re-tested to ensure normality. The result of the normality test after outlier removal is presented in Figure 4.2 below.

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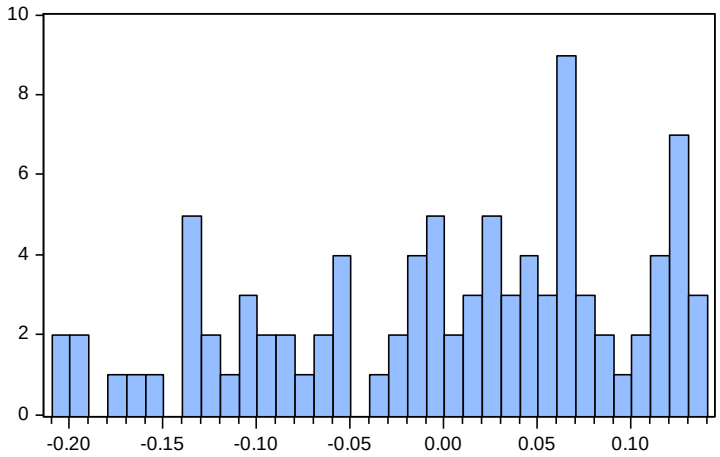
Figure 4.2 Normality Test Results after Outlier



Data processed (2024)

According to Figure 4.2, the probability value is 0.057, which which exceeds the threshold of of 0.05. This indicates that, after the removal of outliers, the sample data in this study meets the assumption of a normal distribution.

Figure 4.3 Multicollinearity Test Results

Variance Inflation Factors
Date: 09/27/24 Time: 00:27
Sample: 1 92
Included observations: 92

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	0.000631	6.259993	NA
X1_REPUTASIAUDITOR	3.88E-06	3.891929	1.014826
X2_REPUTASIUNDE...	2.96E-06	3.000667	1.026375
X3_PBV	2.11E-06	1.827209	1.020521

Data processed (2024)

According to Figure 3.3, the total Centered VIF value is 3.061722, which is below the threshold of 10. This indicates that the regression model does not experience multicollinearity issues.

Figure 4.4 Heteroscedasticity Test Results

Heteroskedasticity Test: White
Null hypothesis: Homoskedasticity

F-statistic	1.660421	Prob. F(9,82)	0.1121
Obs*R-squared	14.18171	Prob. Chi-Square(9)	0.1160
Scaled explained SS	7.737961	Prob. Chi-Square(9)	0.5608

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According to Figure 4.4, the results of the heteroscedasticity test indicate that the Prob.Chi-Square(9) value is 0.0116, which is higher than the significance level of 0.05. Thus, it can be concluded that the regression model is free from heteroscedasticity issues.

Figure 4.5 Autocorrelation Test Results

Breusch-Godfrey Serial Correlation LM Test:
Null hypothesis: No serial correlation at up to 2 lags

F-statistic	0.109284	Prob. F(2,86)	0.8966
Obs*R-squared	0.233223	Prob. Chi-Square(2)	0.8899

Data processed (2024)

According to Figure 4.5, the autocorrelation test results show that the Prob.Chi-Square(2) value is 0.8899, which exceeds the significance level of 0.05. Therefore, it can be inferred that there is no indication of autocorrelation within the observed factors in the regression analysis.

After cleaning the data by removing outliers and ensuring that the data meets the required assumptions, the author will closely examine the 92 sample companies. Descriptive statistical methods will be used to summarize the main characteristics of this sample, and the findings will be presented in Figure 4.6.

Figure 4.6 Descriptive Statistic after Outlier Results

	Y_UNDERP...	X1_REPUT...	X2_REPUT...	X3_PBV
Mean	0.248478	8.641304	8.206522	6.210652
Median	0.250000	7.000000	5.000000	4.455000
Maximum	0.350000	18.00000	19.00000	57.29000
Minimum	0.040000	1.000000	1.000000	0.510000
Std. Dev.	0.107089	5.160249	5.949491	7.023743
Skewness	-0.531902	0.513251	0.696484	4.625490
Kurtosis	1.729008	2.101322	2.117082	32.03826
Jarque-Bera	10.53054	7.135092	10.42631	3560.404
Probability	0.005168	0.028225	0.005444	0.000000
Sum	22.86000	795.0000	755.0000	571.3800
Sum Sq. Dev.	1.043587	2423.163	3221.076	4489.300
Observations	92	92	92	92

Data processed (2024)

Descriptive analysis of the variables auditor's reputation, underwriter's reputation, Price to Book Value (PBV), and IPO underpricing reveals a fairly diverse range of values. Auditor's reputation shows a value distribution between 1 and 18 with an average of 8.641, indicating a variation in the reputation levels of the auditors involved. Similarly, underwriter's reputation ranges from 1 to 19, with an average of 8.206. The PBV variable has a broader range, from 0.51 to 57.29, with an average of 6.21. Lastly, IPO underpricing has a range from 0.04 to 0.35, with an average of 0.248, indicating variation in the level of underpricing at the time of the IPO.

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Figure 4.7 Multiple Linear Regression Analysis Results

Dependent Variable: Y_UNDERPRICING
Method: Least Squares
Date: 09/27/24 Time: 00:20
Sample: 1 92
Included observations: 92

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.151556	0.025122	6.032884	0.0000
X1_REPUTASIAUDITOR	0.009052	0.001971	4.592898	0.0000
X2_REPUTASIUNDERWRITER	0.002333	0.001719	1.356865	0.1783
X3_PBV	-7.12E-05	0.001452	-0.049007	0.9610

R-squared	0.217896	Mean dependent var	0.248478
Adjusted R-squared	0.191233	S.D. dependent var	0.107089
S.E. of regression	0.096306	Akaike info criterion	-1.800059
Sum squared resid	0.816194	Schwarz criterion	-1.690416
Log likelihood	86.80270	Hannan-Quinn criter.	-1.755806
F-statistic	8.172332	Durbin-Watson stat	1.941109
Prob(F-statistic)	0.000074		

Data processed (2024)

Based on Figure 4.7, the outcome of the multiple linear regression analysis in this study is as follows:

$$Y = 0{,}151 + 0{,}009X1 + 0{,}002X2 - 7{,}120X3 + e$$

From the regression equation above, the findings can be interpreted as follows:

1. The constant coefficient of 0.151 indicates that underpricing amounts to 0.151 when the auditor's reputation, underwriter's reputation, and PBV variables are equal to zero.
2. The auditor's reputation coefficient of 0.009 implies that for every 1% increase in the auditor's reputation variable, underpricing increases by 0.009, assuming other variables remain constant.
3. The underwriter's reputation coefficient of 0.002 indicates that for every 1% increase in the underwriter's reputation variable, underpricing increases by 0.002, assuming other variables remain constant.
4. The Price to Book Value (PBV) coefficient of -7.12 indicates that for every 1% increase in the PBV variable, underpricing decreases by 7.12, assuming other variables remain constant.

Simultaneous Hypothesis Test (F-Test)

The F-test is used to assess the overall significance of the independent variables' simultaneous effect on the dependent variable. The results of the F-test are shown in Figure 4.8 below.

Figure 4.8 Simultaneous Hypothesis Test (F-Test) Results

Dependent Variable: Y_UNDERPRICING
Method: Least Squares
Date: 09/27/24 Time: 00:20
Sample: 1 92
Included observations: 92

Variable	Coefficient	Std. Error	t-Statistic	Prob.
R-squared	0.217896	Mean dependent var		0.248478
Adjusted R-squared	0.191233	S.D. dependent var		0.107089
S.E. of regression	0.096306	Akaike info criterion		-1.800059
Sum squared resid	0.816194	Schwarz criterion		-1.690416
Log likelihood	86.80270	Hannan-Quinn criter.		-1.755806
F-statistic	8.172332	Durbin-Watson stat		1.941109
Prob(F-statistic)	0.000074			

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Based on Figure 4.8, the F-statistic value is 8.172332, and the Prob(F-statistic) value is 0.0000074, which is less than the significance level of 0.05. This indicates that the variables of auditor reputation, underwriter reputation, and Price to Book Value (PBV) collectively have a significant influence on the level of underpricing. Therefore, the first hypothesis (H1) is accepted.

Determination Coefficient Test (R2 Test)

The purpose of the coefficient of determination test (R^2 Test) is to provide an overview of the strength of the relationship between the independent variables and the dependent variable. The results of the coefficient of determination test (R^2 Test) are presented in Figure 4.9 below.

Figure 4.9 Determination Coefficient Test (R2 Test) Results

Dependent Variable: Y_UNDERPRICING
Method: Least Squares
Date: 09/27/24 Time: 00:20
Sample: 1 92
Included observations: 92

Variable	Coefficient	Std. Error	t-Statistic	Prob.
R-squared	0.217896	Mean dependent var		0.248478
Adjusted R-squared	0.191233	S.D. dependent var		0.107089
S.E. of regression	0.096306	Akaike info criterion		-1.800059
Sum squared resid	0.816194	Schwarz criterion		-1.690416
Log likelihood	86.80270	Hannan-Quinn criter.		-1.755806
F-statistic	8.172332	Durbin-Watson stat		1.941109
Prob(F-statistic)	0.000074			

Data processed (2024)

The R-squared value is 0.217896, indicating that the variables of auditor reputation, underwriter reputation, and Price to Book Value (PBV) explain 21.7896% of the variation in IPO underpricing. The remaining 78.2104% is influenced by other factors.

Partial Hypothesis Test (T-Test)

The partial hypothesis test (t-test) is used to determine whether each independent variable individually has a significant effect on the dependent variable. The result of partial hypothesis test (t-test) is presented in figure 4.10 below.

Figure 4.9 Determination Coefficient Test (R2 Test) Results

Dependent Variable: Y_UNDERPRICING
Method: Least Squares
Date: 09/27/24 Time: 00:20
Sample: 1 92
Included observations: 92

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.151556	0.025122	6.032884	0.0000
X1_REPUTASIAUDITOR	0.009052	0.001971	4.592898	0.0000
X2_REPUTASIUNDERWRITER	0.002333	0.001719	1.356865	0.1783
X3_PBV	-7.12E-05	0.001452	-0.049007	0.9610

Data processed (2024)

Based on Figure 4.9, the t-test results indicate that the significance value for auditor reputation is 0.0000, which is less than 0.05. This suggests that auditor reputation has a significant positive effect on underpricing, supporting the second hypothesis (H2). This finding implies that the higher the reputation of the auditor engaged by a company during its IPO, the higher the level of underpricing

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observed. This indicates that the higher the auditor's reputation employed by a company during its IPO, the greater the level of underpricing. This finding suggests that a high auditor reputation may create excessive expectations among investors regarding the performance of the company going public, leading to an initial stock price that is set significantly lower than its market price after listing.

This condition may also reflect the tendency of reputable auditors to be associated with IPOs of companies with high growth prospects, which ultimately attract substantial investor interest and trigger a surge in stock prices post-IPO. This study aligns with previous research, such as that conducted by Nazihah, Rosnidah, and Juwenah (2020), which found that companies using highly reputable auditors are more likely to experience greater underpricing on their first trading day.

The t-test results show that the significance value for underwriter reputation is 0.1783, which is greater than 0.05. This indicates that the underwriter reputation variable does not have a significant positive effect on underpricing, leading to the rejection of the third hypothesis (H3). This finding suggests that, within the context of this study's sample, underwriter reputation is not a factor influencing the level of underpricing during an IPO. Consequently, other factors may play a more dominant role in determining initial stock prices and shaping investor confidence in this context. These findings differ from some prior studies that highlighted a relationship between underwriter reputation and underpricing. For instance, research by Isnaeni, Najmudin, and Shaferi (2020) concluded that reputable underwriters can help companies achieve more stable stock prices during an IPO. However, the results of this study suggest that the role of underwriter reputation may vary depending on market context, industry sector, or specific economic conditions, making this relationship inconsistent. Similar observations were made by Jayanarendra and Wiagustini (2019), who found that the impact of underwriter reputation is not universally applicable across all scenarios.

The t-test results show that the significance value for Price to Book Value (PBV) is 0.961, which is greater than 0.05. This indicates that the PBV variable does not have a significant positive effect on underpricing, leading to the rejection of the fourth hypothesis (H4). These findings differ from previous research by Jaya and Kuswanto (2021), which suggested that PBV reflects market perceptions of a company's growth potential and prospects, thereby influencing the level of underpricing. However, this study indicates that PBV may not be a dominant factor affecting investor decisions in determining initial stock prices. Other factors, such as the company's financial stability or market conditions during the IPO, could play a more critical role as primary determinants of underpricing.

V. SUGGESTIONS

This study aims to identify the factors influencing IPO underpricing by considering auditor reputation, underwriter reputation, and price-to-book value (PBV) as independent variables. Additionally, the study seeks to determine which variable exerts the strongest influence on IPO underpricing. Based on the results of multiple regression analysis, it was found that underwriter reputation and PBV do not have an impact on IPO underpricing. However, auditor reputation demonstrates a positive effect on IPO underpricing in the Indonesian capital market for the 2022–2024 period. Several limitations must be considered when interpreting the findings of this research. First, the sample is limited to 92 IPO companies listed on the Indonesian capital market during the 2022–2024 period that meet specific criteria. Therefore, for future research, it is recommended to use a larger sample size covering a longer time period to obtain more accurate results. Second, the independent variables in this study remain limited. Future research is encouraged to incorporate a broader range of variables derived from theoretical frameworks and prior studies. This approach is expected to provide a more comprehensive and accurate understanding of the factors influencing stock underpricing in capital markets.

Thus, the findings of future analyses are anticipated to make a more significant contribution to the advancement of financial and investment knowledge, particularly in understanding the issue of underpricing in initial public offerings (IPOs).

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