

THE RAMIFICATION OF PRESTIGIOUS UNDERWRITERS, IPO PRICING METHOD, AND INSTITUTIONAL ALLOCATION ON INDONESIA IPO UNDERPRICING DURING 2010-2021

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ABSTRACT: This research analyses how prestigious underwriters, IPO pricing, and share allocations shape IPO underpricing in Indonesia. 359 out of 406 Indonesian companies in the period 2010-2021 were underpriced on the first day of trading, noting the importance of investigating the rationale behind the underpricing phenomenon, which proliferates in the finance literature. This study examines the degree of IPO underpricing after the period post-Global Financial Crisis and the outbreak of COVID-19. This research found that the mean of underpricing amounted to 36,77% in 2010-2021. Prestigious underwriters have been proven significantly squeeze the level of underpricing vis-à-vis non-prestigious underwriters. Moreover, the research found that most institutional investors get disproportionately higher shares of the issuing companies. The finding signifies the lucrative capital gain for investors to pursue on the first day of trading.

Keywords: IPO Underpricing; Prestigious Underwriters; IPO Pricing; Share Allocations

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INTRODUCTION

Having existed for 110 years, since its inception in December 1912 in Batavia, Indonesia Stock Exchange (IDX) has been a go-to option for Indonesian companies to undertake an Initial Public Offering (IPO) to raise funding and be a publicly listed company. Eight hundred twenty companies have been listed on Indonesia Stock Exchange (IDX, 2022). Inevitably, the Jakarta Stock Exchange, the former name of the Indonesia Stock Exchange before its merger with the Surabaya Stock Exchange, must have been experiencing the underpricing phenomenon. The growing prominence of the IPO underpricing phenomenon has captured the ever-increasing attention of scholars in financial literature for decades.

The existence of underpricing would not likely seem outlandish and no longer alienates the Indonesian listed companies, investors, and underwriters. Widianti and Dwi Kusuma (2013) found that the level of underpricing for companies conducting IPOs in Indonesia is comparatively high. Previous studies observed that Indonesia's mean underpricing ranges from 22% to 29%. Moreover, Gumanti et al. (2017) findings indicate that smaller and bigger IPO has a mean of 30% and 15%, respectively, based on all Indonesian firms undertaking IPO and being examined from 1989 to 2005. On the other hemisphere, Sochi and Islam (2018) found that the mean of underpricing for 50 IPOs listed on the Dhaka Stock Exchange between June 2011 and June 2016 was 198.8%. Additionally, Cheunga et al. (2018) examined the short-term performance of Hong Kong IPOs from 1994 to 2014, discovering that the amount of underpricing fluctuated annually, ranging from -32.5% to 93.5%. Further, Liu et al. (2020) found that the annual mean underpricing from 2007 to 2016 in China is 63.34%.

Underpriced stocks posit that the firm is valued lower than its prospects, allowing investors to profit on the first day of trading. The proliferation of underpricing in the financial industry is inevitable, as most issuing companies experience underpricing on the first day of trading. The presence of underpricing in the financial sector is unavoidable as most issuing companies experience underpricing. The rationale behind underpricing proliferated in the finance literature is rooted in the interest of each party involved in the IPO process. Thus, offering two contradicting paradigms of the sell side, the issuing company, and the buy side, institutional investors and retail investors. The issuing companies undertake IPO to raise as much capital as possible, given that they will give outsiders control over the company. Meanwhile, considering that the companies have no historical financial data elevates the risk of loss for investors. For this reason, the buy side, institutional and retail investors, demands the lowest price issuing companies can offer to obtain a listing gain in the future.

The asymmetric information between issuing companies and investors becomes the foundation of this research. Rock (1986) contended that asymmetric information necessitates issuing companies to compensate for the risk borne by investors and entice the interest of investors utilizing underpricing the stock. On the other hand, the signalling theory proposed by Leland and Pyle (1977) opined that the presence of prestigious underwriters could fill the void of the asymmetric information faced by investors, thus certifying the issuing companies' quality and compressing the

price discount sacrificed to the investors. The existing information asymmetry between the issuing company, investment bankers, and investors inevitably causes one of these actors is expected to have more information than the others. (Pamukçu and Öztürk, 2018). Further, Sundarasan et al. (2021) argued that because of information asymmetry, intermediaries' roles are amplified because it signals the legitimacy of enterprises going public. Consequently, the two contradicting paradigms have the potential to be bridged by the presence of underwriters to provide a win-win solution for both stakeholders.

Underpricing can be considered the cushion that underwriters provide to the investors for the willingness to invest in a venture with no historical financial performance and incalculable risks of the issuing company. Increased uncertainty about the company's quality raises the risk of loss for uninformed investors. For these reasons, investors hesitate to buy because uncertainty confounds the investment decision. Thus, larger underpricing is necessary for the issuing companies to succeed in going public. In the context of Indonesia, Utamaningsih et al. (2013) observed that the average underpricing in the Indonesian stock market (IDX) amounted to 28.70%. Meanwhile, more recent research by Husnan et al. (2015) found that the Indonesian market experience amounted to a 23% underpricing level lower than Utamaningsih et al. (2013) findings.

During the IPO process, investors are urged to assess the soon-to-be-listed companies they are unfamiliar with through a disseminated prospectus. Unlike the shareholders or the board of directors, retail investors find it challenging to evaluate newly listed companies and may be uncertain of the firm's future value (Stiglitz 2000). Having confronted such a dilemma, issuing companies are cognizant of taking action to fill the void or avoid incomplete information that will decrease IPO subscribers or bid evaluations. To address the information asymmetry between a firm and its investors, firms use prestigious underwriters to flash "signals." The presence of a prestige underwriter helps companies flash signals to prospects and potential investors regarding the firm's robust quality and credibility. Such commitment is referred to as the Signaling Theory proposed by Leland and Pyle (1977). According to Leland and Pyle (1977), the decision of the issuing company to hire a prestigious underwriter might be a relevant signal to the market about the reliability and quality of the soon-to-be-listed firm.

Underwriters might have a cordial relationship with institutional investors, the buy side. These two parties involved in the IPO process play a significant role in determining the issuance price. During the book-building period, underwriters will disseminate the preliminary prospectus, which contains a range of minimum and maximum *ex-ante* prices of the issuing company, to institutional investors to solicit relevant information concerning the price demand and solicit the data from bids performed by institutional investors, ultimately determining the final offer price afterwards. High demand for the issuing company is indicated and measured by institutional investors bidding close to the higher limit price range and vice versa.

Given that most individual investors lack institutional investors' financial acumen, Utamaningsih et al. (2013) assert that institutional investors indirectly influence stock pricing. Thus, investment banks rely heavily on information provided

by institutional investors as an anchor to gauge the final offer price. Underwriters have gotten more pertinent information from knowledgeable investors through the book-building process.

Nevertheless, crucial information derived from institutional investors' bids as a valuation threshold comes at the expense of issuing companies. Underwriters will have to compensate institutional investors for disclosing the price they are willing to bid by allocating larger shares to these knowledgeable investors. In addition, share allocation performed by the investment bank also serves as a signal to measure issuing companies' credibility and underwriter intents. The issuance of shares is deemed correlated with the issuing company's performance. Ong et al. (2020) contend that more significant ownership concentration on institutional investors indicates robust company quality and a reasonably priced IPO valuation, referring to signalling theory.

The introduction above sheds light on three crucial components during the IPO: the importance of the underwriter's reputation, the importance of book-building and its effect on shares' allocation, and the significance of institutional investors' allocation to the level of underpricing in IDX. Eventually, the research problem is formulated as follows: 1) Do prestigious underwriters, IPO pricing, and share allocations shape IPO underpricing in Indonesia? This research aspired to continue previous research by Utamaningsih et al. (2013) concerning IPO underpricing from 2001 to 2010. In comparison, this research observes and examines IPO underpricing from 2010 to 2021 using the standard variable relative to previous research. More importantly, these periods experienced three disruptive events, which were deemed to inevitably affect the maximum underpricing level: post-Financial Global Crisis, the outbreak of COVID-19, and the threshold imposed by Indonesian Financial Authority Services (OJK). Thus, this research was purposefully conducted to measure the relevance of pre-existing research by Utamaningsih et al. (2013).

THEORETICAL REVIEW

Winner's Curse Model

A winner's curse model was created by Rock (1986) to explain IPO underpricing. He classified two types of investors, namely, informed investors and uninformed investors. Due to their financial acumen, the model argues that knowledgeable investors will invest in lucrative IPOs and uninformed investors will invest in both lucrative and non-performing IPO stocks, indicating a higher probability of losing in IPOs faced by uninformed investors deters them from continuously participating in the upcoming IPO.

Additionally, Rock (1986) argues that underpricing exists primarily due to the relationship between an issuer and an underwriter in which the issuer is voluntarily willing to compensate for information asymmetry to succeed. Before succeeding in the IPO process, companies face asymmetric information between the executives and the potential investors that force the issuing companies to discount their offering price and intent to raise an abundance of financial capital needed. In the IPO context, the following are the reasons for asymmetric information. First, IPO firms have no proven track record in public markets. Second, most general information about a company is

deemed filtered by company insiders. Top executives show only the company's positive aspects to investors, particularly during the IPO process. Third, investors are urged to assess the soon-to-be-listed companies they are unfamiliar with through a disseminated prospectus. Furthermore, faced with uncertainty and asymmetric information, investors' demand for compensation for risk is becoming the base prerequisite to entice investors to participate in the IPO market.

Signalling Theory

Having confronted asymmetric information, the issuing companies unwilling to leave too much "money on the table" are cognizant of the need to take action to fill the void or avoid incomplete information that will decrease IPO subscribers or bid evaluations. Consequently, the urgent need to increase the likelihood of IPO success is imperative. To address the information asymmetry between a firm and its investors, firms use prestigious underwriters to flash "signals." The presence of a prestige underwriter helps companies flash signals to prospects and potential investors regarding the firm's robust quality and credibility. Such commitment is referred to as the Signaling Theory proposed by Leland and Pyle (1977). According to Leland and Pyle (1977), the decision of the issuing company to hire a prestigious underwriter might function as a relevant signal to the market about the reliability and quality of the soon-to-be-listed firm, thus helping companies to squeeze the level of underpricing.

The Underwriter Reputation Rating on Underpricing

Reputable underwriters frequently set fair offer prices relative to the absolute value of the companies to draw and entice investors to subscribe to IPOs. By analyzing the ten-tier rank underwriters, Carter and Manaster (1990) discover a markedly negative correlation between underpricing and underwriter reputation rank. The reasoning may relate to the industry investment banking is involved in, the reputation business. According to Carter and Manaster (1990), prestigious underwriter-managed placements are viewed as less hazardous and more reasonable pricing.

Furthermore, Hanley (1993) contends that a firm's IP is more likely to succeed if its underwriter is prestigious. It boils down to the fact that the existence of underwriters testifies and certifies the fairness of the offer price and the quality of the listing firm. The rationale supports the argument as the third party, underwriters, is at stake if they disseminate false and dubious information. According to Carter and Manaster (1990), reputable underwriters only use high-quality companies to protect their reputation. Prospective investors are convinced to buy shares of issuing companies that prestigious or respected underwriters issue. According to Michaely and Shaw's (1994) analysis of IPO prices between 1984 and 1988, underpricing is less common for IPOs managed by reputable investment banks. Thus, it signifies underwriters' crucial involvement in the pre-IPO, issuing date, and post-IPO process.

Moreover, having known the importance of the three processes above, high-prestige underwriters would take advantage by performing excellently to preserve their prestige. Hanle's (1993) findings emphasize that an underwriter who values

initial public offerings (IPOs) improperly and causes a high level of underpricing results in the erosion of market share and sees a decline in the underwriters' market value over time. Based on the literature and references explained previously, hence, the hypothesis is formulated as follows:

H₁: Underwriters' reputation has a negative effect on underpricing.

IPO Pricing Ramification on Underpricing

The IPO allocation and the pricing mechanism are two connected variables that coexist regarding their effects on the level of underpricing. The book-building approach includes these two elements (Benveniste and Spindt, 1989). Benveniste and Spindt (1989) support the findings that underpricing is worse when the book-building mechanism is employed. By employing book building, underwriters can distribute underpriced shares to their most lucrative clients. In comparison, underwriters cannot distribute lucrative shares to clients utilizing an auction or a direct listing.

Institutional investors' pricing of the issuing stock to the top of the price range during the "waiting time" after the preliminary prospectus is disseminated designed to encourage underpricing, consequently sending signals that the issuing stock is deemed as high-quality stock, leading to higher demand for the supply which results in higher underpricing on the first day of trading. Thereafter, underwriters will adjust the initial price range to the final price shortly after obtaining feedback from institutional investors. Utamaningsih et al. (2013) claimed that when the IPO price revealed by institutional investors is close to the top end of the initial price range, the issuing stock will experience a higher level of underpricing on the first closing day. Based on the literature and references explained previously, hence the hypothesis.

H₂: IPO Pricing positively affects underpricing if the initial IPO price approaches the upper limit of the offering price range.

IPO Share Allocation Ramification on Underpricing

Hanley (1993) firmly contends that if the demand for the issuing stocks is exceptionally high, which leads to the issue of being oversubscribed, the underwriters might exert to compensate institutional investors with large share allocations employing increasing numbers of shares being issued. The rationale relates to the extent of information institutional investors disclose to preserve their holdings in prospective companies. Therefore, in exchange for their judgment over the issuing company, institutional investors demand a more significant share allocation or "discount" from underwriters. Further, if the former demand is not fulfilled, the latter will be granted by underwriters in underpricing the issuing stock. An empirical study by Benveniste and Spindt (1989) has found issues in which valuable information is disclosed and revealed by the buy side. Institutional investors experience higher underpricing than issues without disclosing relevant information.

Such findings indicate that rewarding investors for disclosing valuable information, enhanced share allocation and underpricing are employed and utilized to preserve the reciprocal relationship. According to Utamaningsih et al. (2013), institutional investors prominently gain favour due to their more reliable

commitment, which results in a more significant share allocation of IPO holdings they retain for a specified price. The rationale is supported by the higher probability of institutional investors being chosen by underwriters relative to individual investors who are less discerning at providing relevant information and are more fragile to sell their holdings when faced with market sentiment (Ritter, 1984). In addition, according to Hanley's (1993) findings, underwriters prefer to reward investors for providing factual information by distributing a smaller number of tremendously underpriced shares instead of a more significant number of modestly underpriced shares. Nonetheless, institutional investors expect to gain more from revealing the truth to be encouraged to disseminate their judgment in the future repetitively (Hanley, 1993).

Nevertheless, several previous studies contend that institutional investors' holdings do not correlate positively with underpricing. The rationale is that institutional monitors ascertain that they perform their fiduciary responsibility to the issuing companies by eliminating excessive loss on the first day of trading (Hanafi 2016). This contradicting view opposes Utamaningsih et al. (2013) findings which discovered a positive correlation between share allocation and underpricing. Hanafi (2016) examined 182 IPOs in Indonesia from 2006-2015 and observed that the adverse effects of IPO underpricing are more pronounced, while the former findings by Utamaningsih et al. (2013) will be followed as the second hypothesis. Based on the previous works of literature, the hypothesis is formulated.

H₃: Greater share allocation to institutional investors positively affects underpricing.

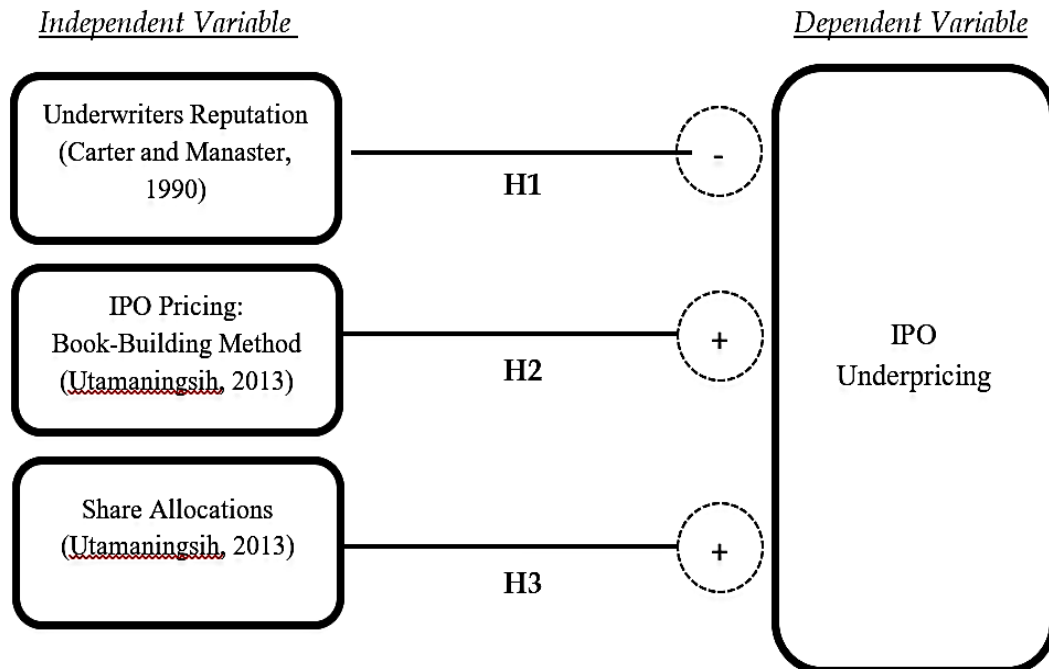


Figure 1. Conceptual Framework

METHODOLOGY

This research obtains and retrieves data from several sources, namely, Indonesian Stock Exchange (IDX), the Indonesian Capital Market Directory (ICMD),

Indonesian Central Securities Depository (KSEI), the final prospectus, the preliminary prospectus, and Bloomberg. The yearly transaction reports of the Indonesia Stock Exchange (IDX) and Bloomberg League Tables from 2010 to 2021 provided information on underwriter reputation rankings in Indonesia. The gathered data was then reorganized to determine the underwriter rating based on the transaction volume that the underwriter guaranteed. The final IPO price, the closing price on the first trading day, the number of shares sold, the initial share allocation to institutional and retail investors, and the offered price range are all secondary data used in this study (see Tables 1 and 2).

The research technique uses purposive sampling, choosing companies that undertook IPOs on the Indonesia Stock Exchange between 2010 and 2021 as the sample for this study (IDX). The particular period is deliberately selected due to the research's fundamental purpose, which aspires to continue the research conducted by Utamaningsih et al. (2013). Moreover, the beginning of 2010 is considered a recovery period post-Global Financial Crisis. Thus, the researcher looks forward to exploring the unexplored by examining the period post-Global Financial Crisis.

The researcher purposefully eliminated abnormal returns or outliers in the data to prevent distortion in statistical analysis. Three years ago, OJK enacted the newest regulation concerning the auto rejection threshold, which governs and limits the volatility of a stock. The decree imposed the 35% daily criterion for auto rejection outlined in the Decree of the Directors of the Indonesia Stock Exchange (IDX) Number KEP-00025/BEI/03-2020 of 2020.

Table 1. Sample Selection

Description	Number of IPOs
Total number of IPOs before qualification	406
- Total number of overpriced IPOs	40
- Total number of fair-priced IPOs	7
- Total number of IPOs with incomplete data	47
- Total number of IPOs outliers	2
Final IPO samples	<u>310</u>

Source: idx.co.id

After selection, 310 of 406 IPOs fully met the desired criteria to be examined in this research. The 310 qualified samples used in this research are all the companies that conducted initial public offerings (IPOs) on the Indonesia Stock Exchange, either State-Owned Enterprises (BUMN) or non-State-Owned Enterprises (Non-BUMN).

Path analysis is employed to test the magnitude of the contribution indicated by the path coefficients on each path diagram of the causal relationship between variables underwriters' reputation, IPO pricing, and share allocation on underpricing. Analysis correlation and regression are the basis for calculating path coefficients. Further, path analysis aims to identify several variables' direct and indirect effects on each variable. Afterwards, AMOS software was employed for the computations.

A path diagram is purposefully created to show the relationships between the independent and dependent variables. The dependent variable, underpricing, will be

tested on the three aforementioned independent variables: the underwriter’s reputation, IPO pricing, and IPO share allocations. The prior research’s path analysis model is formulated for the model testing formulation by Utamaningsih et al. (2013):

$$UNDPRI_i = \alpha_1 + \beta_{11} AJUST_i + \beta_{12} ALOC_i + \beta_{13} RANK_i + e_{1i} \dots\dots\dots (1)$$

Where:

UNDPRI = Underpricing

AJUST = IPO Pricing

ALOC = IPO allocations

RANK = Underwriter rating (Carter-Manaster,1990)

Table 2. Description of the Variables

Code	Description	Type	Formula	Components
UNDPR	Underpricing	Dependent	$UNDPR = (P_1 - P_0) / P_0$	P_1 = Closing price on the first day P_0 = Final offering price 1 = IPO
RANK	Underwriters Reputation	Independent	Dummy Variable	underwritten by a prestigious underwriter, 0 otherwise 1 = Valued by institutional investors close to the upper price range, 0 otherwise
AJUST	IPO Pricing	Independent	Dummy Variable	
ALOC	Share Allocation	Independent	$ALOC = \frac{\text{Institutional Investors Holdings}}{\text{Total Number of Shares Offered}}$	ALOC = Shares Allocated to Institutional Investors

Source: Author’s Tabulation (2023)

RESULTS

After processing the quantitative data, Table 3. shows that IPO underpricing from 2010-2021 has an average of 36.77%, where the lowest is 0.3%, and the maximum is 70.00%. Therefore, these findings corroborated earlier findings in the previous research conducted by Widiandi and Dwi Kusuma (2013), Utamaningsih et al. (2013), and Gumanti et al. (2017), which found the mean of underpricing amounted to 22%, 28,70%, and 30% respectively. One fact worth mentioning is that the period of 2010-

2021 highlights the highest mean of underpricing vis-à-vis all previously conducted research in Indonesia.

Table 3. Descriptive Statistics

Tests	Underpricing (UNDPR)	Institutional Shareholders (ALOC)
Mean	0.3677	0.7065
Standard Deviation	0.298	0.153
Minimum	0.003	0.194
Maximum	0.700	0.99
Number of Observation	310	310

Source: Output of Path Analysis Model (2023)

The share allocation to institutional investors variable has an average value of 70.65%, with a minimum value of 19.4% and a maximum value of 99%. These findings indicate that most Initial Public Offering (IPO) holdings in Indonesia are allocated to institutional investors. Conversely, retail investors are given little chance to partake significant role in IPO. These findings supported the notion that institutional investors are crucial in the IPO process.

It is worth mentioning that the threshold imposed by Financial Authority Services (OJK) inevitably affects the maximum underpricing level on the first day of trading. As of 2021, the top rate of underpricing amounted to 35%, which in the preceding years amounted to 70%. Table 4 shows the threshold of underpricing rate over the years. From 2010-2020, the maximum degree of underpricing close or amounted to 70%. However, as of 2021, the total degree of underpricing amounted to 35%, which was affected by the stipulation of the newest regulation imposed by OJK about the auto rejection threshold.

Table 4. Variable Descriptive Analysis

Year	Mean	Variance	Standard Deviation	Minimum	Maximum	Number of Observation
2010	0.269	0.054	0.232	0.014	0.700	18
2011	0.172	0.027	0.192	0.020	0.667	15
2012	0.228	0.05	0.224	0.013	0.695	18
2013	0.250	0.054	0.232	0.011	0.694	20
2014	0.295	0.052	0.228	0.003	0.700	19
2015	0.268	0.056	0.238	0.013	0.700	13
2016	0.240	0.075	0.274	0.015	0.700	13
2017	0.456	0.066	0.256	0.021	0.700	31
2018	0.605	0.212	0.461	0.026	0.700	43
2019	0.487	0.054	0.232	0.007	0.700	42
2020	0.398	0.042	0.205	0.005	0.700	40
2021	0.218	0.015	0.121	0.006	0.350	38

Source: www.idx.co.id

Previously, OJK regulated the Auto Rejection threshold in Regulation Number II-A concerning Trading in Equity Securities at Number KEP-00168/BEI/11-2018 dated 22 November 2018 for the trading of shares resulting from a Public Offering that

was first traded on the exchange set at 70% limit auto rejection threshold in a day. Nonetheless, during the pandemic in 2020, OJK enacted the newest regulation concerning the auto rejection threshold. The Decree of the Directors of Indonesia Stock Exchange (IDX) Number KEP-00025/BEI/03-2020 of 2020 stipulates that the point for auto rejection is 35% in a day. Table 5 highlights that two independent variables significantly influence IPO underpricing, namely, Underwriter Reputation (RANK) and Share Allocation (ALOC), by P-values of 0.001 and 0.036, respectively. It is depicted that only the relationship between underwriters' reputation and share allocation variables to IPO underpricing has a p-value of less than an error rate of 5%. Furthermore, the deliberately added analysis, which tested the relationship between the independent variables, shows no significant relationship among the exogenous variables at α 0,05, one-tailed test.

The relationship between Underwriter's Reputation (RANK), IPO Pricing (AJUST) and Share Allocation (ALOC) on Underpricing (UNDPRI) has an R-Squared of 6.6%. Ultimately, the R-Squared of 6.6% contributed by underwriters' reputation, IPO pricing system, and share allocation still holds a low influence compared to other variables not involved in this study. Thus, further analysis must be examined to measure the factor contributing to IPO underpricing the most. Table 6 shows that the Reputation of the underwriters and the distribution of shares significantly impact the direct effect, indicating that changes in these two variables directly affect changes in IPO underpricing. Underwriter reputation has a direct coefficient of -0.13 on underpricing. Meanwhile, share allocation has a coefficient of -0,223 indirectly affects the underpricing level. Only underwriter reputation and share allocation signify its significance at α 0,05, one-tailed test, while IPO pricing has proven to be statistically insignificant at α 0,05, one-tailed test.

Table 5. Results of Path Analysis Mode

Variable	Relations	Est	S.E.	C.R.	P-value	R2
AJUST	← RANK	-0.027	0.058	-0.467	0.641	0.10%
ALOC	← AJUST	-0.006	0.018	-0.332	0.74	
ALOC	← RANK	0.03	0.018	1.666	0.096	0.90%
UNDPRI	← RANK	-0.13	0.034	-3.833	0.001***	
UNDPRI	← AJUST	0.03	0.033	0.897	0.37	6.60%
UNDPRI	← ALOC	-0.223	0.107	-2.094	0.036**	

*** significant at α 0.01, one-tailed test

** significant at α 0.05, one-tailed test

Prestigious Underwriter Ramifications on Underpricing

The relationship between underwriter reputation and the level of underpricing is statistically significant and has a negative effect, measured by the -0.13 estimate and 0.001 p-values. As the path analysis model indicates, when the p-value is < 0.05 , the underwriter's reputation significantly influences the level of underpricing. Thus, the first hypothesis on the negative effect of the underwriter's reputation on underpricing is supported.

Consequently, the findings corroborated those earlier findings that suggest underwriter’s reputation partake a significant role in determining the level of underpricing (Hanafi, 2016; La Rocca, 2021; Utamaningsih et al., 2013). Not only does this finding disprove the mistrust over the underwriters, but it also debunks the notion that reputable underwriters are not performing their fiduciary responsibility. More importantly, the issuing companies can consider that prestigious underwriters based on Carter and Manaster (1990) model will act in the client’s best interest. Thus, the issuing companies would not have to “leave money on the table” by hiring prestigious underwriters to underwrite their IPO process.

IPO Pricing Ramifications on Underpricing

The estimate of 0.03 in Table 5 shows the positive link between IPO pricing and the degree of underpricing. Nevertheless, the influence of IPO Pricing (*AJUST*) on IPO underpricing is statistically insignificant by a p-value of 0.37, less significant than the determined p-value of 0.005. Thus, the findings are in opposition to those of previously conducted research which found a correlation between IPO pricing and underpricing to be statistically significant and contended that price adjustment in pre-IPO after soliciting feedback from institutional investors influenced the degree of underpricing (Hanley, 1993; Loughran and Ritter, 2002; Utamaningsih et al., 2013). The process of soliciting feedback utilizing book-building for determining the final offer price does not result in a steeper level of underpricing. Therefore, the notion that the IPO pricing method positively affects underpricing is counterproductive. Thus, the initially expected hypothesis is rejected.

Share Allocation Ramifications on Underpricing

The relationship between share allocation and underpricing is expected to be positive. The reasoning is that disseminating a larger share of underpriced stock would benefit both the underwriter and institutional investors, thus leading to larger underpricing. Nevertheless, the expected positive hypothesis between share allocation and IPO underpricing was negative, contradicting the previous study of Utamaningsih et al. (2013), which found that underpricing climbs higher if the underwriters allocate disproportionately higher shares to institutional investors.

Table 6. Results of Path Analysis Models

Independent Variable	Underpricing (UNDPRI)			IPO Pricing (AJUST)			Share Allocation (ALOC)		
	DE	IE	TE	DE	IE	TE	DE	IE	TE
Underwriters Reputation	-0.13***	-0.008	-0.13	-0.027		-0.027	0.03		0.03
IPO Pricing	0.03	0.001	0.03				0.006		-0.006
Share Allocation	-0.223**		-0.223						
R ²		6.60%			0.10%			0.90%	

*** significant at α 0.01, one-tailed test

** significant at α 0.05, one-tailed test

Note: DE = Direct Effect/IE = Indirect Effect/TE = Total Effect

DISCUSSION

Prestigious Underwriter Ramifications on Underpricing

The findings supported the notion that prestigious underwriters negatively affect the degree of underpricing. Consequently, the results corroborated those earlier findings that suggest underwriter's reputation partake a significant role in determining the level of underpricing (Hanafi, 2016; La Rocca, 2021; Utamaningsih et al., 2013). Furthermore, the findings supported the findings by Setya et al. (2020), who discovered that the investment bank's reputation significantly affects the underpricing level in IDX. Not only does this finding disprove the mistrust over the underwriters, but it also debunks the notion that reputable underwriters are not performing their fiduciary responsibility. More importantly, the issuing companies can consider that prestigious underwriters based on Carter and Manaster (1990) model will act in the client's best interest. Thus, the issuing companies would not have to "leave money on the table" by hiring prestigious underwriters to underwrite their IPO process. Therefore, the first hypothesis of the negative effect of the underwriter's reputation on underpricing is supported.

IPO Pricing Ramifications on Underpricing

The findings found that IPO Pricing positively affects the degree of underpricing. However, the study also posits that the positive correlation between IPO Pricing and Underpricing is statistically insignificant. Thus, the findings are in opposition to those of previously conducted research which found a correlation between IPO pricing and underpricing to be statistically significant and contended that price adjustment in pre-IPO after soliciting feedback from institutional investors influenced the degree of underpricing (Hanley, 1993; Loughran and Ritter, 2002; Utamaningsih et al., 2013). The process of soliciting feedback through book-building for determining the final offer price does not result in a steeper level of underpricing (Clarkson et al., 2011; Green & Jame, 2013; Preuss, 2010; Tutuncu, 2020). These anomaly findings have supported the pre-existing research by Miller (1977), which claimed that investors tend to overestimate the IPO value due to over-optimistic valuation in the pre-IPO process. Most crucially, recent research by Ma et al. (2022) found that primary market pricing had little impact on IPO underpricing. Therefore, the notion that the IPO pricing method positively affects underpricing is counterproductive. Thus, the initially expected hypothesis is rejected.

Share Allocation Ramifications on Underpricing

The findings do not support the notion that Share Allocation positively affects the degree of underpricing. The pre-existing research by Utamaningsih et al. (2013) found a positive correlation between institutional allocation and underpricing. They contended that the higher distribution to institutional investors would lead to a larger underpricing due to the reimbursement demanded by institutional investors for providing relevant information. Thus, the relationship between share allocation and

underpricing is expected to be positive. Nevertheless, the expected positive hypothesis between share allocation and IPO underpricing was negative, contradicting the previous study of Utamaningsih et al. (2013), which found that underpricing climbs higher if the underwriters allocate disproportionately higher shares to institutional investors.

Notwithstanding the statistically significant influence of share allocation on IPO underpricing, the results suggest that share allocation harms the degree of underpricing. Following Darmadi's & Gunawan's (2013) and Hanafi's (2016) findings examining IPOs in Indonesia, they do not support that institutional ownership harms the level of underpricing. Hanafi (2016) discovered that the issuing firms evaluate the underwriters' performance to ascertain that they are fulfilling their fiduciary duties. In addition, Ong et al. (2020) found that more significant ownership concentration on institutional investors indicates a moderately priced IPO valuation referring to signalling theory. Ultimately, the p-value of the share allocation (*ALOC*) variable is statistically significant but does not result in the initially expected hypothesis. Thus, the hypothesis is not supported.

FURTHER STUDY

In anticipation of compressing the degree of underpricing and "money left on the table," the issuing company shall hire prestigious underwriters to perform its duty in ascertaining issuing company's objectives to raise as much capital as needed for their expansion through Initial Public Offering (IPO). The issuing companies shall not be afraid of leaving higher cash on the table due to the cordial relationship between prestigious underwriters and institutional investors, which is often deemed to lead to a higher degree of underpricing. Prestigious underwriters, as the findings suggest, will perform their fiduciary responsibility to preserve their reputation to maintain their market share.

Furthermore, the investors could benefit from participating in the primary market and experiencing capital gain through selling stocks on the first day of trading. This research found that 88%, 359 out of 406 companies, are underpriced on the first day of trading. The mean of underpricing amounted to 36,77%, signifying the lucrative capital gain for investors to pursue.

The limitation of this research is not considering the issuing companies' size and projected financial performance in assessing the degree to which they are deemed prospective stocks, which consequently affects their choices of underwriters. If the issuing companies are widely known for their prospects before conducting an Initial Public Offering (IPO), the need for flashing signals by hiring reputable underwriters might be less imperative.

Given that the period 2010-2021 experiences the highest level of underpricing, 36,77%, vis-à-vis all previously conducted research in Indonesian IPO. The period of the analysis is a possible key factor in answering the question considering that the evolution of the characteristics of the enterprise's external environment can shape the relationship between underwriter reputation and underpricing. Nevertheless, the period would be meaningless if no events influenced them. Hence, one might consider

investigating the rationale behind the steadily increasing mean of underpricing from 1990-2021. One fact that might be worth considering is the implementation and promulgation of a book-building mechanism which started in October 2000. The mean of underpricing has started increasing steadily ever since. Therefore, the researcher leaves future research to examine the causality behind the increasing level of underpricing experienced by Indonesian companies.

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