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The Influence of Auditor’s Reputation and Underwriter’s Reputation to Underpricing Shares When Initial Public Offering

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***Abstract*—Underpricing is an initial public offering phenomenon that often occurs in the capital market. This study aims to obtain empirical evidence about the influence of auditor reputation and underwriter reputation on underpricing of shares. The population in this study are all companies that go public in Indonesia Stock Exchange in 2013-2017. The research method used is basic research with sample selection using purposive sampling method. The sample used in this research is 94 samples. The data of sample is using idx fact book and prospectus published on www.idx.co.id. This research uses multiple linear regression analysis and classical assumption test include descriptive statistic, normality test, multicollinearity test, autocorrelation test, and heteroscedasticity test. T test (partial test) were used to test the research hypothesis. The results of this research showed that the reputation of auditors and underwriter reputation proved to be significant on underpricing of share.**

Keywords: underpricing, auditor reputation, underwriter reputation

I. INTRODUCTION

Growing companies tend to require substantial funds to expand his business. The inclusion of the stock through the process of going public is an alternative source of funding that can be chosen by companies when in need of sufficient funds is great. The company may carry out the mechanisms go public by doing an Initial Public Offering (IPO) or sell the stock.

Determination of the price of the shares will be traded in the primary market is a thing that's pretty important, either for the company or underwriter. The condition relating to the amount of funding to be received by the company. A cheap stock price or lower than the price in the secondary market are known as (underpricing).

Cheapness offer Prime not only happens in Indonesia, but also in the world. Therefore, it is the phenomenon of underpricing phenomenon world [1]. Underpricing conditions unfavourable for the company, because the funds that will be acceptable to the company not maximum. The condition is caused by underpricing the existence of asymmetry of information between the parties involved in the process of pricing when bidding of Prime stock, such as underwriter, the company, and potential investors, thus causing the conflict interests between the parties.

Some of the factors that may affect the reputation of underpricing shares such as auditors and the reputation of the underwriter. The use of the services of a reputable auditor, such as The Big Four would indicate that financial reports that have been in audit quality. This condition can be utilized by the company as a positive signal, to attract potential investors through a prospectus at the time the book building and initial public offering.

Underwriter also has an important role in helping enterprises carry out initial public offering process. The Underwriter is a party that will bridge the interests of prospective issuers and investors is thought to have a high influence on the low levels of underpricing [2]. Potential investors will tend to choose a company that is guaranteed by the underwriter who is reputable, so the use of the services of a reputable underwriter, will give a positive signal for the company.

The results of the research states that the reputation of Auditors to underpricing shares [2,3]. The results of the study contradict the research done stating that the auditor has no effect against the reputation of underpricing shares [4-6].

The results of the research states that the reputation of the underwriter influential underpricing shares [3-5]. The results of the study contradict the others research stating that the reputation of the underwriter has no effect against underpricing shares [7].

Based on the phenomenon and various research results that have been done earlier, there are inconsistencies of results of research. The condition of underpricing that often occurred during the Initial Public Offering (IPO) and the existence of inconsistencies that make research results researchers are motivated to test return “The Influence of Auditor's Reputation and Underwriter's Reputation to Underpricing Shares When Initial Public Offering (Empirical Studies on Companies Listed on the Indonesian Stock Exchange Period 2013-2017)”.

Based on background research, then that becomes the principal problem in this research are:

- What is the reputation of an Auditor to Underpricing shares?
- What is the reputation of the Underwriter to Underpricing shares?

II. Research Methods

This research is basic research (basic research) that aims to generate more understanding of the phenomenon and construct theories based on the results of the research [8].

This research method is the method vitrificated, which is a research done again based on previous research. This type of research is used that is quantitative research. This research uses tools in the form of application software that is Statistical Package for Social Science (SPSS) in order to make it easier to research and test the truth of the hypothesis testing. SPSS is a piece of software that serves to analyse data and perform statistical calculations of statistics either parametric or non-parametric with windows [9]. The latest version is used i.e. IBM SPSS version 23.

The source of the data used in this research is secondary data. Secondary data is information collected by someone and not retrieved from researchers. The data in the form of data that is accessed through an internet search, document, or publication information [8]. The data in this study were obtained from the Indonesia stock exchange with the official website www.idx.co.id to find out data about variables. Method of data collection in this study using the method of documentation. The population in this research is the whole company that went public on the Indonesia stock exchange period 2013-2017. Research population numbered 94 issuers. The sample used in this study were determined by using purposive sampling technique, namely the determination of the sample based on certain criteria, namely:

- Companies that do an Initial Public Offering on the Indonesia stock exchange (idx) since year 2013-2017.
- Companies that are experiencing conditions of underpricing in an initial public offering as early as 2013-2017.
- The Company has the completeness of the required data in the study.

Based on these criteria – the criteria, acquired 94 samples, consisting of 94 companies.

A. Variable Operasionalisation

Underpricing Of Shares (Y) According to Aini [7] measured using Initial Underpricing Return which systematically formulated as follows:

Initial Return = $(P_{t1}-P_{t0}) / P_{t0} \times 100\%$

Where:

Pt0 = IPO Price

Pt1 = Close Price

B. Auditor Reputation (X 1)

Auditor reputation variable measured using numbers dummy, where the auditors who audit the financial statements of the company are rated based on the reputation of the public accountant, when the auditor comes from public accountant affiliated with the public accountant The Big Four coded 1 (one), whereas when the public accountant is not affiliated with public accountant The Big Four coded 0 [3].

C. The Reputation of the Underwriter (X 2)

Underwriter reputation variable measured using the ratio of the sum total of offer shares being issued to the market through all IPOS done by the underwriter, divided by the total value of the offering of the entire IPO in the sample [2].

III. Results and Discussion

A. Descriptive Statistics

Descriptive statistics give an overview or description of a data seen from the average (mean), maximum, standard deviation, and minimum of each variable research. The following is a table of descriptive statistics from each variable research, namely:

TABLE I. DESCRIPTIVE STATISTICAL TESTS

	N	Minimum	Maximum	Mean	Std. Deviation
Underpricing Shares	94	,00	3,45	,3522	,41703
Auditor's Reputation	94	0	1	,17	,378
Underwriter's Reputation	94	,00	,13	,0106	,01657
Valid N (listwise)	94				

Source: SPSS Output Results 23 2018

From the results of such research, the third variable is a variable, namely the research underpricing shares, the reputation of the auditor, and the reputation of the underwriter standard deviation shows the value that is greater than the value of the average (mean), which means it can be said that the third variable of research data has markedly.

B. A Classic Assumption Test

1) Test for normality: Test of normality aims to test whether the variable regression model in the bully or residual has a normal distribution. These studies use statistical tests to test the residual normality, IE a non-parametric statistical test Kolmogorof-Smirnov (K-S). Following is the result of a test of normality in this study, namely:

TABLE II. TEST FOR NORMALITY

		Unstandardized Residual
N		94
Normal Parametersa,b	Mean	,0000000
	Std.Deviation	,25187190
Most Extreme Differences	Absolute	,087
	Positive	,087
	Negative	-,071
Test Statistic		,087
Asymp. Sig. (2-tailed)		,076c
a. Test distribution is Normal.		
b. Calculated from data.		
c. Lilliefors Significance Correction.		

Source: SPSS Output Results 23 2018

Based on the results of a test of normality in table 2 shows that the value of the significance of 0.076, which means that the test results of the Kolmogorov-Smirnov has the value significance of 0.076 > 0.05. That is, the value of the larger significance of 0.05, so it can be said that residual data is distributed normally.

2) Test multikolonearitas: Test multikolonearitas aims to test whether the regression model is found the existence of a correlation between free variables (independent). A regression model which should not happen good correlation between independent variables. Following are the results of a test for multicollinearity in the study, namely:

TABLE III. TEST MULTIKOLONIERITAS

Collinearity Statistics			
Model		Tolerance	VIF
1	(Constant)		
	Reputasi Auditor	,999	1,001
	SQRT_UDW	,999	1,001
a. Dependent Variable: SQRT_UNDP			

Source: SPSS Output Results 23 2018

Based on the results of the test multicollinearities in table 3 show that the value of the variable on the auditor reputation tolerance and underwriter reputation of 0.999, that value is greater than 0.10 (0.10 > 0.999), whereas the value of variable on VIF's reputation of Auditors and the reputation of the underwriter of 1.001, those results are smaller than 10 (1.001 < 10), so it can be said that the data from the entire independent variable in this study meets the test of multicollinearities, because there is no correlation between independent variable in regression models.

3) Autocorrelation test: Autocorrelation test aimed at testing whether a linear regression model in there is a correlation between the errors of a bully in the period t of a bully with an error in the period t-1 (earlier). How that can be used to detect autocorrelation or no, IE by doing Test Runs (Runs Test). Following is the result of a test for autocorrelation in the study, namely:

TABLE IV. AUTOCORRELATION TEST

	Unstandardized Residual
Test Value[a]	,03443
Cases < Test Value	47
Cases >= Test Value	47
Total Cases	94
Number of Runs	46
Z	-,415
Asymp. Sig. (2-tailed)	,678
a. Median	

Source: SPSS Output Results 23 2018

Based on autocorrelation test results in table 4 shows that the value of Asymp. SIG (2-tailed) of such value, 0.678 greater than 0.05 (0.678 > 0.05), so that it can be concluded that the random residual autocorrelation occurred or not.

4) Test Heteroskedastisitas: Test heteroskedastisitas aims to test whether the model regression residual variance and inequality occurred one other observation to observation. Good regression test is the Homokedastisitas or Heteroskedastisitas does not occur. Statistical tests are used to detect whether or not there are heteroskedastisitas in this study is to test the Glejser. Following is the result from the test hetereoskedasitas in this study, namely:

TABLE V. TEST HETEROSKEDASTISITAS

Unstandardized Coefficients			Standardized Coefficients			
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	,202	,030		6,845	,000
	Reputasi Auditor	-,029	,042	-,072	-,693	,490
	SQRT_UDW	,024	,280	,009	,086	,932

Dependent Variable: ABS_UNDP

Source: SPSS Output Results 23 2018

Based on the results of the test heteroskedasticities in table 5 indicate that significance value. a variable reputation Auditors of 0.490, that value is greater than 0.05 (0.490 > 0.05), and the value of the significant variable, underwriter reputation of the value, 0.932 greater than 0.05 (0.05 > 0.932), so it can be inferred the regression model does not contain the presence of heteroskedasticities.

5) Multiple linear regression analysis: Data analysis in this study by using multiple linear regression analysis, i.e. to see the influence of underwriter reputation and the reputation of the underwriter's response to underpricing shares. Following are the results of multiple linear regression test in this study, namely:

TABLE VI. MULTIPLE LINEAR REGRESSION TEST

	Unstandardized Coefficients			Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	,753	,049		15,389	,000
	Reputasi Auditor	-,214	,070	-,272	-3,063	,003
	SQRT_UDW	-2,345	,463	-,450	-5,067	,000
a. Dependent Variable: SQRT_UNDP						

Source: SPSS Output Results 23 2018

Based on multiple linear regression test results table 6, then the linear regression equation obtained in this study are as follows:

$$UNDP = 0{,}753 – 0{,}214\ AUD – 2{,}345\ UDW + e$$

Based on these equations, it can be described as follows:

- The value of the constants of 0.753 pointed out that if the auditor's reputation and the reputation of the underwriter is considered to have a constant value, then the value of underpricing shares for 0.753.
- The auditor reputation Variable has a value of constant-0.214. That is, if a variable reputation Auditors increase by 1 (unit), then it will lower the value of underpricing shares amounted to 0.214.
- Variables constant has a value of underwriter reputation of 2.324. This means that if the variable underwriter reputation increases by 1 (unit), then it will lower the value of underpricing shares for 2.324.

6) Test coefficient determination (R^2): Determination of the coefficient is used to measure how much the ability of the model in explaining the variation in the dependent variable. Here are the test results Adjusted R^2 in this research:

TABLE VII. TEST COEFFICIENT DETERMINATION

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,532[a]	,283	,268	,25462

a. Predictors: (Constant), SQRT_UDW, Auditor's Reputation

b. Dependent Variable: SQRT_UNDP

Source: SPSS Output Results 23, 2018

Based on the results of a test of the determination of the coefficients in table 7 shows that the magnitude of the Adjusted R2 is registration of 26.8% or 0.268, this means the variation of underpricing shares can be explained by the variation of a variable reputation underwriter of 26.8%, while the rest (100%-26.8%) is a explained by other things outside of the model.

IV. DISCUSSION

A. Testing the Influence of Reputation of Auditors Against Underpricing Shares

Based on the results of testing against auditor reputation underpricing shares, acquired the level of significance of 0.05 < 0.003. This means the auditor reputation partially proved to have significant influence towards underpricing shares. The reasons underlying the results of this research are the reputable Auditors deemed able to provide the services of a qualified audit, so that the results of the financial statements audited by the auditor of the reputable rarely contain the wrong material food, therefore, the use of the services of qualified auditors can provide a positive signal towards potential investors at the time of the IPO process, this in accordance with Signalling Theory, so the problem of information asymmetry may also be reduced and will affect your offer price shares when ITS IPO.

The results of this study are consistent with research stating that the auditor's influential and significant reputation against underpricing shares [2,3,7] and contrary to research stating that the auditor has no effect against the reputation of underpricing shares [4,6].

B. Underwriter Reputation Against Testing Underpricing Shares

Based on the results of testing against underwriter reputation underpricing shares, gained significance level of 0.000 < 0.05. This means the underwriter reputation partially proved to have significant influence towards underpricing shares. The reasons underlying the results of this research are the reputable rated underwriter will be more risk- taking or endure the enormity of the responsibility of the prospective issuers at the time of the IPO process, therefore, the use of reputation Auditors and the services of a reputable underwriter It will give a positive signal towards potential investors, it is in accordance with signalling theory being used and will affect the price of the share offer prospective issuers at the time of the IPO.

The results of this study are consistent with research stating that the underwriter reputation and significant effect against underpricing shares [3-5], and contrary to research stating that the reputation of the underwriter has no effect against underpricing shares [2,7].

V. CONCLUSION

Based on the results of the research the reputation of an auditor and the reputation of the underwriter of the stock on the company's response to underpricing that went public on the Indonesia stock exchange year 2013- 2017, then it can be summed up as follows: (1) The results of the study indicate significant and influential auditor reputation against underpricing shares. (2) The results of the study indicate significant and influential underwriter reputation against underpricing shares.

Based on the research done indicates that the results of the determinant are the coefficient of 26.8% which means the variable in this research the reputation of an auditor and the reputation of the underwriter to explain variable underpricing shares for 26.8%, While the remaining 73.2% is explained by other variables. This has resulted in any limitations in this study, among which are the following: (1) This research data using just five research period, i.e. the period of 2013-2017, causing the research data do not represent the condition of underpricing shares. (2) This study uses only two independent variables, namely the auditor reputation and the reputation of the underwriter, thus causing possible other variables that may affect underpricing shares.

Based on the limitations that have been outlined so researchers advise, so that can be useful for researchers. The advice can give researchers are as follows: The Researchers recommended further research in order to add perode sample gained more varied and accurate.

The Researchers recommended further add or use other variables that are able to explain its effect on underpricing shares, such as Return On assets, Return on Equity, Price Earnings Ratio, Free Float and other variables.

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