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# Decoding IPO Underpricing: How Auditor Reputation Moderates Key Influencing Factors

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**Abstract**---The purpose of this study is to examine the factors influencing stock under-pricing in companies conducting Initial Public Offerings (IPOs) on the Indonesia Stock Exchange (IDX) during the period 2020–2024, with auditor reputation as a moderating variable. The population consists of companies that went public on the IDX between 2020 and 2024. The sample was selected using purposive sampling, resulting in 177 companies. The collected data were analysed using SPSS software with the Moderated Regression Analysis (MRA) method. The empirical findings indicate that the Debt-to-Equity Ratio (DER) has a significant effect on under-pricing. In contrast, Return on Assets (ROA), Earnings per Share (EPS), and firm size do not significantly influence under-pricing. Furthermore, statistical testing shows that auditor reputation does not moderate the effects of ROA, DER, EPS, and firm size on under-pricing.

**Keywords**---Initial Public Offering, Signalling Theory, Under-pricing.

## Introduction

The increasing number of investors in the capital market not only reflects a shift in public behavior but also presents an opportunity for companies to capitalize on this momentum through strategic initiatives such as Initial Public Offerings (IPOs). An IPO serves as a crucial channel for companies to raise capital and seize emerging growth opportunities. In this context, IPOs become a key alternative for enhancing liquidity and strengthening financial structure (Dwi Ladista et al., 2024).

Despite the rise in IPO activity amid volatile market conditions, there has been a heightened degree of information uncertainty compared to the pre-pandemic period (Baig & Chen, 2022). An article by Mazumder & Saha (2021) highlights that while IPOs in 2020 showed an increase in initial returns, pandemic-related fears remained a factor that negatively impacted the short-term performance of IPOs. Similarly, Li et al. (2018), examined IPO activity during the 2008 financial crisis and found that IPOs in China experienced a decline in underpricing levels post-crisis, as investors were less inclined to speculate on first-day closing prices.

In Indonesia, the prospectus is a mandatory document regulated by the Financial Services Authority (OJK) during the IPO process, as stipulated in Regulation No. 8/POJK.04/2017 concerning Registration Statements for Public Offerings. This document contains detailed information about the company's financial condition, business plans, management structure, and risk factors that may affect future performance. For investors, the prospectus serves as the primary source of information to assess investment feasibility and the potential profitability of the offered shares. Therefore, the quality and transparency of disclosures in an IPO prospectus are essential in building investor trust and promoting informed decision-making.

Crucial information such as institutional investor participation and the reputation of underwriters disclosed in IPO prospectuses can influence IPO pricing (Mohd-Rashid et al., 2018). Although IPO prospectuses provide essential data for investors, Bottazzi et al. (2016) found an asymmetric relationship between voluntary disclosures in

prospectuses and initial returns. Information asymmetry arises when there is an imbalance in information between the parties involved in a transaction, for example, between the issuing company and potential investors. In such cases, companies often possess a deeper understanding of their performance and prospects compared to investors, who only have access to publicly available information such as prospectuses and formal communications.

This imbalance can pose significant risks for investors, as they may not have a complete or accurate picture of the potential benefits and risks of their investment. As a result, information asymmetry often shapes market perceptions of IPOs, leading to uncertainty and fluctuations in the offering price. This situation gives rise to phenomena such as underpricing, overpricing, and true pricing during the public offering process (Lindrianasari et al., 2023).

#### *Literature Review and Hypothesis Development*

Signaling theory, proposed by Spence (1973), explains how one party conveys relevant information to reduce information asymmetry. In IPOs, firms signal their quality through financial indicators, including ROA. A high ROA reflects efficient asset utilization and sound managerial performance. This provides a positive signal to investors about the firm's profitability and growth prospects. Investors attracted by such signals may increase demand for IPO shares, potentially driving up secondary market prices. As a result, underpricing may occur, creating a gap between the offering price and the market price. Studies by Murtini & Hizkia (2024), Rossovski et al. (2024), and Sunarko & Rasyid (2023b) show a positive relationship between ROA and underpricing. Therefore, it is hypothesized that ROA negatively influences stock underpricing.

*H1: The Effect of Return on Assets (ROA) on Stock Underpricing*

According to signaling theory, companies send financial signals to reflect internal conditions. The debt-to-equity ratio (DER) indicates the firm's capital structure and financial leverage. A high DER might signal greater financial risk, reducing IPO attractiveness. However, if debt is used for strategic expansion, it may be viewed positively by investors. This dual interpretation of DER makes it a complex predictor of underpricing. Empirical evidence from Perkasa & Maiyaliza (2024), Hadi (2019), and Sari (2020) supports the positive influence of DER on underpricing. Investors often seek high-risk, high-return opportunities in IPOs, making leveraged firms attractive. Thus, DER is hypothesized to positively affect stock underpricing.

*H2: The Effect of Debt-to-Equity Ratio (DER) on Stock Underpricing*

In the context of signaling theory, EPS serves as a strong profitability indicator. A higher EPS signals strong earnings potential and attracts investor interest. This encourages higher demand during IPOs, pushing up prices on the first day of trading. Consequently, the gap between the offer price and market price results in underpricing. Prior studies by Khatimah & Khalid (2024), Haniifah & Hartati (2021), and Morina & Rahim (2020) confirm a positive correlation between EPS and underpricing. High EPS may also lead to oversubscription, as shown by Alfin & Dillak (2021). Abbas et al. (2022) further support this argument. Hence, it is hypothesized that EPS negatively influences stock underpricing.

*H3: The Effect of Earnings Per Share (EPS) on Stock Underpricing*

According to signaling theory, firm size can be a proxy for stability and public visibility. Larger firms are often more known and transparent, reducing information asymmetry. This transparency increases investor confidence and reduces perceived investment risk. Higher trust leads to increased IPO demand, causing initial returns to rise. Studies by Darryl & Yusbardini (2023) and Mayasari et al. (2018) find a positive relationship between firm size and underpricing. Larger asset bases also enhance credibility and market expectations. Sabaria et al. (2023) confirm this pattern in Indonesian IPOs. Thus, firm size is hypothesized to negatively affect underpricing.

*H4: The Effect of Firm Size on Stock Underpricing*

Signaling theory suggests that third-party endorsements, such as auditor reputation, can strengthen financial signals. A reputable auditor assures investors that the ROA figure is credible and free from manipulation. High ROA, combined with a high auditor reputation, sends a strong positive signal to the market. This reduces uncertainty and stabilizes initial returns. In contrast, a low ROA may lead to higher underpricing, but a respected auditor can mitigate the impact. Research by Permadi & Yasa (2017) supports the moderating role of auditor reputation. Trust in audited financials increases IPO demand. Therefore, auditor reputation is hypothesized to strengthen the negative effect of ROA on underpricing.

*H5: Auditor Reputation Moderates the Effect of ROA on Underpricing*

Auditor reputation enhances the credibility of firms with high DER, according to signaling theory. A high DER typically signals financial risk, but reputable auditors reduce skepticism. Their presence assures investors of responsible debt management. This may encourage investor confidence despite high leverage. [Firdaus & Herawati \(2020\)](#) and [Permadi & Yasa \(2017\)](#) demonstrate that reputable auditors amplify the relationship between DER and underpricing. Market participants perceive reduced uncertainty and greater transparency. This leads to higher investor interest and potential underpricing. Therefore, auditor reputation is hypothesized to strengthen the positive effect of DER on underpricing.

*H6: Auditor Reputation Moderates the Effect of DER on Underpricing*

EPS is a key profitability signal, but its effectiveness increases when verified by a reputable auditor. Signaling theory emphasizes that third-party validation increases investor confidence. High EPS signals strong earnings, but the presence of a credible auditor assures its reliability. This builds market trust and supports higher IPO demand. [Khairina et al. \(2023\)](#) show that auditor reputation positively influences underpricing due to reduced information asymmetry. [Khatimah & Khalid \(2024\)](#) and [Haniifah & Hartati \(2021\)](#) confirm the EPS-underpricing link. A strong auditor enhances this relationship by confirming financial transparency. Thus, auditor reputation is hypothesized to strengthen the negative effect of EPS on underpricing.

*H7: Auditor Reputation Moderates the Effect of EPS on Underpricing*

Firm size serves as a signal of stability, and this signal is reinforced by the auditor's reputation. Larger firms already benefit from investor familiarity and access to information. However, the presence of a reputable auditor adds further credibility. This dual signaling effect enhances investor trust, particularly in volatile markets. [Khairina et al. \(2023\)](#) and [Darryl & Yusbardini \(2023\)](#) show that auditor reputation increases IPO confidence and reduces uncertainty. This combination increases investor interest, potentially leading to underpricing. Even small firms may benefit from auditor endorsement, though the effect is stronger in large firms. Therefore, auditor reputation is hypothesized to strengthen the negative effect of firm size on underpricing.

*H8: Auditor Reputation Moderates the Effect of Firm Size on Underpricing*

## Methods

This study was conducted on the Indonesia Stock Exchange (IDX), which is the only official stock exchange in Indonesia that oversees all companies conducting Initial Public Offerings (IPOs). As the primary capital market in Indonesia, the IDX provides comprehensive and standardized data, enabling more accurate analysis of underpricing phenomena. The scope of this research focuses on the factors influencing underpricing (Y), which includes the variables return on assets (X1), debt to equity ratio (X2), earnings per share (X3), and firm size (X4), with auditor reputation (Z) as a moderating variable. The study is limited to companies that conducted IPOs during the period 2020–2024. This timeframe was chosen to capture capital market reactions during a period of heightened uncertainty, marked by the COVID-19 pandemic, post-crisis recovery, and geopolitical tensions. The sampling method used in this study is purposive sampling, which involves selecting samples based on specific criteria and considerations. The criteria for selecting the sample are as follows:

- a) Companies that conducted IPOs on the IDX during 2020–2024.
- b) Companies from non-financial sectors.
- c) Companies that experienced underpricing during their IPO.

These criteria were established to align with the objectives of the study. The 2020–2024 period was selected due to the occurrence of numerous global economic and non-economic events, during which there was a notable surge in the number of investors and IPO activities. Financial sector companies were excluded because they are subject to different leverage ratio treatments compared to other sectors. In line with the underpricing phenomenon being investigated, only companies that experienced underpricing at the time of their IPO were included as research samples ([Boulton et al., 2020](#)).

To test the moderating variable, the study employs Moderated Regression Analysis (MRA). In general, MRA functions similarly to multiple regression analysis, but it includes interaction terms between independent variables and the moderating variable. This method is used to determine whether the auditor's reputation as a moderator strengthens or weakens the influence of the independent variables on IPO stock underpricing.

## Result and Discussion

### *Hypothesis Testing Results*

Hypothesis testing in this study was conducted to evaluate the validity of the proposed hypotheses. The main hypothesis assumes that return on assets (X1), debt-to-equity ratio (X2), earnings per share (X3), and firm size (X4) influence underpricing (Y), while auditor reputation (Z) acts as a moderating variable between the independent and dependent variables. The testing was carried out using the Moderated Regression Analysis (MRA) method. The results are presented as follows:

### *F-Test*

The F-test was used to assess the overall significance of the regression model in explaining the observed phenomenon. Although the study does not aim to evaluate the simultaneous influence of all independent variables, the F-test remains important to validate the regression model. The significance threshold was set at 0.05.

Table 1  
F-Test Results

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	11,306,738	4	2,826,685	3.595	0.008
Residual	135,258,731	172	786,388		

Primary Data, 2025

The significance value of 0.008 is less than the threshold of 0.05, indicating that the independent variables collectively influence the dependent variable. Hence, the regression model is considered statistically fit.

### *Coefficient of Determination (Adjusted R<sup>2</sup>)*

The adjusted R<sup>2</sup> test measures how well the independent variables explain the variance in the dependent variable. A value closer to 1 indicates better explanatory power, while a value closer to 0 implies weak explanatory ability. Based on the results, the adjusted R<sup>2</sup> value is 0.056, which means that 5.6% of the variation in underpricing can be explained by ROA, DER, EPS, and firm size. The remaining 94.4% is explained by other factors not included in this model.

### *t-Test (Partial Significance Test)*

The t-test was used to examine the individual influence of each independent variable on underpricing at a significance level of 0.05.

Table 2  
Moderated Regression Analysis Results

Variable	B	Std. Error	Beta	t	Sig.	Decision
(Constant)	-29.941	36.708		-0.816	0.416	
ROA	17.168	24.038	0.056	0.714	0.476	H1 Rejected
DER	1.230	0.400	0.235	3.075	0.002	H2 Accepted
EPS	0.001	0.004	0.023	0.298	0.766	H3 Rejected
Firm Size	2.567	1.406	0.165	1.825	0.070	H4 Rejected
ROA * Auditor	39.588	80.888	0.042	0.489	0.625	H5 Rejected
DER * Auditor	-0.475	2.035	-0.021	-0.233	0.816	H6 Rejected
EPS * Auditor	-0.146	0.117	-0.115	-1.248	0.214	H7 Rejected
FirmSize * Auditor	-0.178	0.420	-0.048	-0.425	0.672	H8 Rejected

Primary Data, 2025

*Effect of Return on Assets (ROA) on Underpricing*

The p-value for ROA is 0.476 ( $> 0.05$ ), indicating no statistically significant effect on underpricing. Thus, H1 is rejected. The coefficient of 17.168 implies that a 1% increase in ROA would reduce the likelihood of underpricing by 17.168%, though the effect is not statistically significant.

*Effect of Debt-to-Equity Ratio (DER) on Underpricing*

The p-value for DER is 0.002 ( $< 0.05$ ), showing a statistically significant positive effect. Therefore, H2 is accepted. The coefficient of 1.230 means a 1% increase in DER increases underpricing likelihood by 1.230%.

*Effect of Earnings Per Share (EPS) on Underpricing*

The p-value for EPS is 0.766 ( $> 0.05$ ), indicating no significant impact. Thus, H3 is rejected. The coefficient of 0.001 shows that a 1% increase in EPS leads to a negligible 0.001% increase in underpricing.

*Effect of Firm Size on Underpricing*

The p-value for firm size is 0.070 ( $> 0.05$ ), hence no significant effect is observed. H4 is rejected. A coefficient of 2.567 suggests that a 1% increase in firm size would decrease underpricing by 2.567%, though not statistically significant.

*Moderating Effect of Auditor Reputation on ROA and Underpricing*

The p-value for the interaction term ROA \* Auditor is 0.625 ( $> 0.05$ ), indicating no moderating effect. H5 is rejected. The coefficient of 39.588 is not statistically significant.

*Moderating Effect of Auditor Reputation on DER and Underpricing*

The p-value for DER \* Auditor is 0.816 ( $> 0.05$ ), suggesting no moderating influence. H6 is rejected. The coefficient of -0.475 is not statistically significant.

*Moderating Effect of Auditor Reputation on EPS and Underpricing*

The interaction term EPS \* Auditor has a p-value of 0.214 ( $> 0.05$ ), showing no significant moderating effect. H7 is rejected. The coefficient of -0.146 is also not statistically significant.

*Moderating Effect of Auditor Reputation on Firm Size and Underpricing*

The p-value for Firm Size \* Auditor is 0.672 ( $> 0.05$ ), indicating no moderating effect. H8 is rejected. The coefficient of -0.178 confirms the insignificance of the moderating role.

All interaction terms are statistically insignificant, indicating that auditor reputation does not moderate the relationship between the independent variables (ROA, DER, EPS, firm size) and underpricing. Therefore, auditor reputation is categorized as a quasi-moderator in this model.

**Conclusion**

- a) Return on assets (ROA) does not affect stock underpricing. This indicates that the level of ROA does not influence the degree of underpricing in IPO stocks.
- b) Debt-to-equity ratio (DER) has a significant effect on stock underpricing. This means that an increase in the DER can lead to a higher level of underpricing.
- c) Earnings per share (EPS) do not affect stock underpricing. This implies that the level of EPS does not affect the extent of underpricing.
- d) Firm size does not affect stock underpricing. This suggests that whether a company is large or small does not significantly influence the degree of underpricing.
- e) Auditor reputation does not moderate the effect of return on assets (ROA), debt-to-equity ratio (DER), earnings per share (EPS), or firm size on stock underpricing.

*Managerial Implication*

Theoretically, this study contributes to the signaling theory literature. Although not all hypotheses were supported, the finding that debt to equity ratio (DER) significantly affects stock underpricing suggests that signaling theory remains relevant in explaining IPO underpricing phenomena. Moreover, this study broadens theoretical understanding by highlighting that not all signals carry equal weight in reducing information asymmetry between

firms and investors. Practically, this research provides insights for companies and investors by suggesting that financial indicators such as ROA, DER, EPS, and firm size can serve as useful considerations in determining IPO pricing strategies. Meanwhile, an auditor's reputation alone may not be sufficient to mitigate underpricing, emphasizing that transparency and the quality of financial disclosures remain essential factors in investor decision-making.

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