FACTORS AFFECTING THE LEVEL OF STOCK UNDERPRICING IN NON-FINANCIAL COMPANIES

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Abstract

This study aims to predict the factors affecting the stock's underpricing in non-financial companies of the Initial Public Offering (IPO) on the Indonesia Stock Exchange (IDX) for the period 2017 – 2019. Compared to previous research, this study provides all the non -financial companies that conduct IPOs. In 2017 to 2019, there are 141 non-financial companies that conduct IPO. This research uses judgment sampling so there are only 131 companies that qualify. The data analysis technique used is descriptive statistical analysis, classical assumption test, multiple linear regression analysis, t-test, f-test, and R square. The result showed that return on assets, firm size, underwriter's reputation, and auditor's reputation have a negative effect and significant on the level of stock underpricing, meanwhile, financial leverage has a positive effect and significant on the level of stock underpricing.

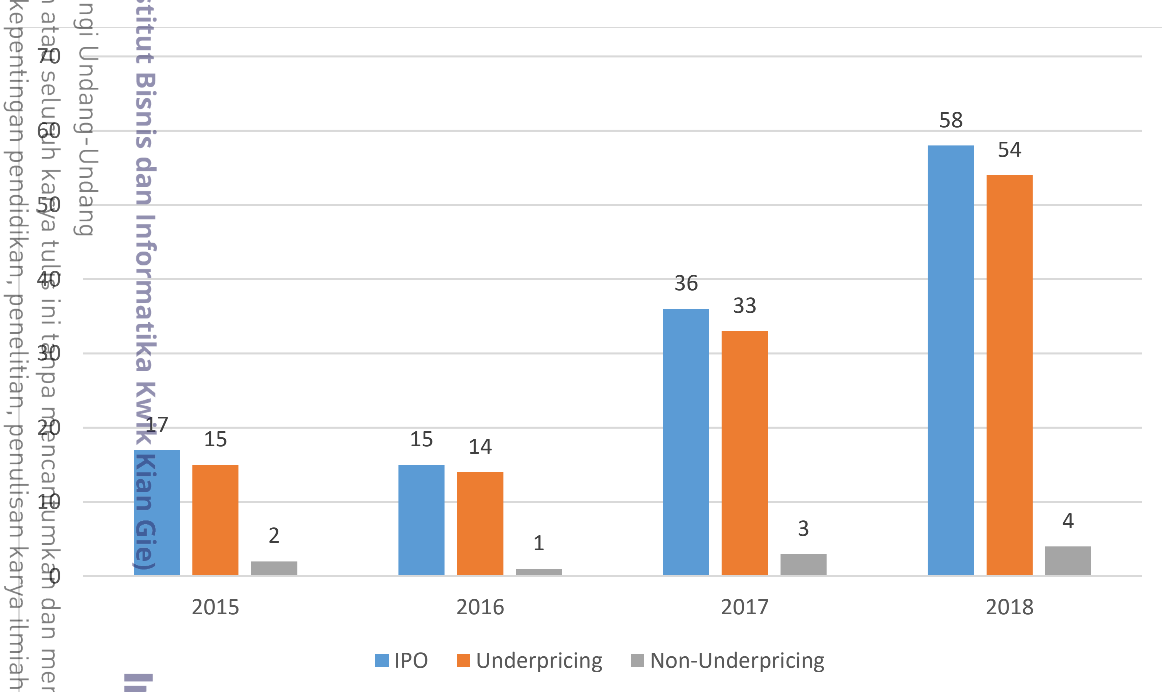
Keywords: Return on Asset, Financial Leverage, Firm Size, Underwriter's Reputation, Auditor's Reputation, Underpricing, Initial Public Offering

Introduction

Along with the rapid development and changing times, companies must move dynamically, efficiently, and innovatively to be able to survive during intense competition. Therefore, companies need additional capital obtained from going public (Dwimulyani and Arius; 2006) (Kartika and Putra; 2017). The first sale of an issuer's public shares to investors on the Indonesia Stock Exchange (IDX) is an Initial Public Offering (IPO). In addition, this Initial Public Offering is often referred to as an initial public offering. Companies that issue shares and obtain funds from the capital market are called issuers or investees (Aziz et al., 2015, pp. 81–82) while people who invest their funds to obtain capital gains in the future or share buyers are called investors. (Nuzula and Nurlaily, 2020, p. 6) (Santoso, 2016, pp. 5–6).

Based on previous research conducted by Yuniarti and Syarifudin in 2020 on companies that conducted IPOs for the 2015 – 2018 period and obtained the following results:

Figure 1. Comparison of the Number of Companies experiencing Underpricing with companies who non-underpricing



In setting IPO prices, almost all capital markets in the world find IPO prices set at a low price. This also happened in Indonesia, Figure 1 explains that the level of underpricing in companies that conducted an initial public offering (IPO) from 2015 to 2018 is very high reached 110 companies or reached 92.06%. From 2015 to 2018 level the occurrence of underpricing is also increasing, in 2015 the rate of underpricing by 88.24% (2 companies), in 2016 the rate of underpricing by 93,33% (1 company), in 2017 the rate of underpricing by 91.60% (3 companies), while in 2018 the rate of underpricing increased to 93.10% (4 companies).

The underwriter enters into a contract agreement with the issuer to conduct a public offering for the interest of the issuer, and the underwriter there is no obligation to buy the remaining unsold stock. The price offered to the public at the time of the IPO is the agreed price between the issuer and the underwriter. Although the prospective issuer and the underwriter jointly enter into an agreement in determining the initial price, they have different interests. Prospective issuers of course want a high initial price so that the funds obtained are as large as expected, but the underwriter of course the company want to try to minimize the risk of the guarantee by determining a low initial price for investors so that the hope is that the underwriter can sell all the shares he guarantees (Samsul 2006a: 75).

According to research that has been done, the factors that influence the occurrence of underpricing at the time of IPOs are return on asset, financial leverage, firm size, underwriter's reputation and auditor's reputation, and company age. But in this study, the factors that influence underpricing will be studied are return on asset, financial leverage, firm size, underwriter's reputation, and auditor's reputation. However, this research that has often been done before has obtained different results from several researchers. So, the researchers were interested in re-examining and intending to conduct research with the title "The Effect of Return on Assets, Financial Leverage, Firm Size, Underwriter's Reputation, and Auditor's Reputation on Level Stock Underpricing (Case Study on Non-Financial Companies that Conduct Initial Public Offerings on the Indonesia Stock Exchange for the period 2017 – 2019)"

Scope of Problem

- Do return on assets (ROA), company size, underwriter reputation, and auditor reputation have a negative effect on the level of stock underpricing?
- Does financial leverage have a positive effect on the level of stock underpricing?

Literature Review

Signaling theory

Signal theory is a theory that was first introduced by Spence in his research entitled Job Market Signaling. Spence (1973) argues that the signal provides a signal that the sender (information owner) is trying to provide relevant pieces of information that can be used by the recipient. Furthermore, the receiving party- will adjust its decision-making according to the understanding of the signal. Signaling theory suggests how should a company signal to users of financial statement reports. The signal consists of information about what management has done to fulfill the owner's urge. Signals can be promotions or other information which states that the company is better than others.

Underpricing

Underpricing is the phenomenon of abnormal first day returns from initial public offerings (IPOs) (Dietrich, 2012:1). This underpricing occurs because the stock price at the time of the IPO set by the underwriter is too low, because the prices that occur in the secondary market reflect prices in a state of balance (full information). Setting a share price that is too low is due to differences in interests between the issuer and the underwriter in entering into an agreement in determining the initial share price (Aini, 2013). This underpricing is very profitable for investors because the stock price at the time of the IPO is lower than the stock price on the first day at closing which causes an initial return. In this study, the level of underpricing was measured by initial returns. The formula for Initial Return is as follows:

$$Initial\ Return = \frac{Closing\ Price - IPO\ Price}{IPO\ Price}\ x\ 100\%$$

The Effect of Return on Asset on the Level of Stock Underpricing

Return on Assets provides an overview of the company's ability to earn profits from its assets. One of the considerations of investors before investing in a company is to look at their ROA ratio. The higher the ROA ratio, the risk faced by investors will also be small with the hope that the level of underpricing is also low because the company can use its assets to earn a profit (Yuniarti and Syarifudin, 2020). This is supported by research conducted by Saputra and Suaryana (2016), Yuniarti and Syarifudin (2020) which can prove that Return on Assets (ROA) has a negative effect on the level of underpricing. However, research conducted by Agustiningsih (2014) states that ROA (Return of Assets) has no significant effect on underpricing.

H_1: Return on Asset has a negative effect on the level of stock underpricing

The Effect of Financial Leverage on the Level of Stock Underpricing

Financial Leverage is used to increase the expected level of profit. The greater the debt owned by the company, the greater the risk (high risk) faced by investors (Toni et al., 2021, p. 9). In this study, the financial leverage ratio used is the Debt-to-Equity Ratio (DER). Because this DER describes the company's debt financed by equity. Therefore, the higher the DER ratio, the higher the risk faced by investors, as a result, investors avoid stocks that have a high DER value. This will result in the underwriter providing a low price for the initial offering of shares with a high DER. This causes underpricing if the DER value is high. This is supported by the results of research conducted by Pahlevi (2014) and Saputra and Suaryana (2016) showing that financial leverage has a positive effect on underpricing. However, research conducted by Ariyani and Ismanto (2019) and Yuniarti and Syarifudin (2020) shows that financial leverage has no effect on the level of underpricing.

H_2: Financial Leverage has a positive effect on the level of stock underpricing

The Effect of Firm Size on the Level of Stock Underpricing

Firm size is a measure that shows or describes the size of a company. The size of this company is measured using total sales, an average level of sales, and total assets. Therefore, the size of this company can be used as a proxy for the level of uncertainty, because the larger the scale of the company, it can be ascertained that this company is generally better known by the public than small-scale companies. This proxy becomes a consideration for investors to invest their capital in the company, because if the size of the company gets bigger then the information that can be obtained by investors from the company is more easily obtained and can reduce uncertainty about the value of the company to be reduced which has an impact on the lower level of underpricing (Yuniarti and Syarifudin 2020) (Agustiningsih et al. 2014). This is supported by research conducted by Yuniarti and Syarifudin (2020), Saputra and Suaryana (2016) and Pratama and Sudjarni (2017), and Agustiningsih et al., (2014) which state that firm size has a significant negative effect on underpricing. However, contrary to the findings by Yasa (2013), it is stated that company size has no effect on underpricing.

H_3: Firm Size has a negative effect on the level of stock underpricing

The Effect of Underwriter's Reputation on the Level of Stock Underpricing

The underwriters have a very important role in determining the price in the primary market, because the underwriter is the one who advises the company to conduct an IPO. Allows leading underwriters, of course, to understand the market and see when it is possible to assess whether an issuer is worth it and which issuers have a bright future. The reputation of this underwriter can also be used as a positive signal for investors in determining the most optimal price and providing input. -Input about the risks that may be faced. Information provided to investors can also be more trusted if the underwriter has a good reputation. If the securities sold do not sell, then the risk that will be faced by the underwriter is losing money because they must bear the securities that are not tradable. Underwriters who have a good reputation will not issue issuers with poor performance, on the other hand underwriters who have a low reputation will still issue issuers with poor performance at a low initial price so that investors are attracted to the issuer. So that, underwriters who have a good reputation can reduce the level of underpricing (Kuncoro and Suryaputri 2019) (Gwenyth and Panjaitan, 2018). This is in line with the results of research conducted by Kuncoro and Suryaputri (2019), Putra and Sudjarni (2017), Gumanti et al (2015), Purwanto and Cahyaningrum (2019), Agustiningsih et al (2014) which show that underwriter reputation has an influence significant negative for underpricing. Meanwhile, research conducted by Hayu et al (2015) and Gwenyth and Panjaitan (2018) shows that underwriter reputation has no significant effect on the level of underpricing.

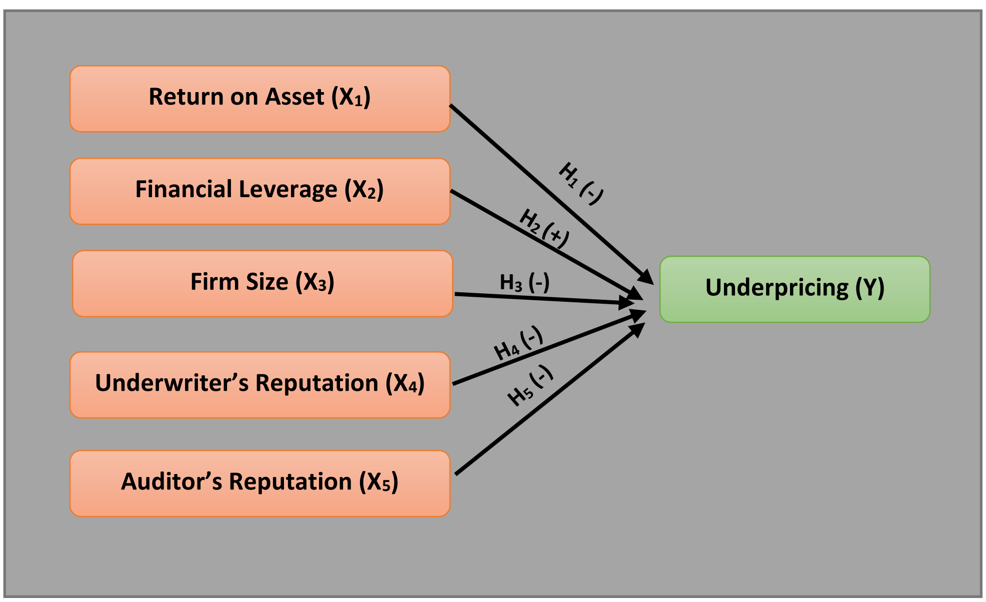
H_4: Underwriter's Reputation has a negative effect on the level of stock underpricing

The Effect of Auditor's Reputation on the Level of Stock Underpricing

Auditing is one of the processes carried out by a team of auditors who have been certified before the financial statements are published so that the information submitted in the financial statements can be trusted by users of financial statements. Audited financial statements are very important and needed for decision-making for both internal and external parties of the company and must provide a higher level of trust. Therefore, the reputation of the auditor is very important because an auditor who has a strong reputation can reduce the level of fraud so as to increase the trust of users of financial statements. Companies that use reputable auditors from the big four show a low level of underpricing because the published information can be trusted by investors (Ariyani and Ismanto 2019) (Rosyidah, 2015). This is supported by the results of research conducted by Ariyani and Ismanto (2019), Gwenyth and Panjaitan (2018), and Rosyidah (2015) which show that auditor reputation has a significant negative effect on the level of underpricing. Meanwhile, research conducted by Maulana and Putra (2020) shows that auditor reputation has no effect on underpricing.

H_5: Auditor's Reputation has a negative effect on the level of stock underpricing

Figure 2. Framework



Research Method

Object of Research

The object used in this study is a non-financial company that conducts an Initial Public Offering (IPO) on the Indonesia Stock Exchange (IDX) between 2017 – 2019.

Researchers will use data that contained in the financial statements of non-financial companies who conducting IPOs consists of return on assets (ROA), financial leverage, firm size, underwriter's reputation, and auditor's reputation.

Variable

Table 1. Variable

No	Definition	Variable	Formula	Measuring Scale
1	Underpricing is the phenomenon of abnormal first day returns from initial public offerings	Underpricing (Y)	Initial Return= (Closing Price-IPO Price)/ (IPO Price) x 100%	Ratio
2	Return on Asset is the company's ability to generate profits from all assets owned by a company	Return on Asset (X1)	Return on Asset= (Net Income)/ (Total Assets) x 100%	Ratio
3	Financial leverage is the company's ability to pay off debt it has with equity	Financial Leverage (X2)	Debt to Equity Ratio= (Total Debt)/ (Total Equity) x 100%	Ratio
4	Firm size is a measure that shows the size of a company	Firm Size (X3)	Firm Size=Ln (Total Assets)	Ratio
5	Underwriters are parties that assist companies in prepare everything to be ready to do an initial public offering.	Underwriter's Reputation (X4)	Using Dummy Variables = 1 (Top Ten Most Active Brokerage IDX), 0 (Non-Top Ten Most Active Brokerage IDX)	Index
6	Auditor is a party that has permission to check the fairness of financial reports	Auditor's Reputation (X5)	Using Dummy Variables = 1 (Big Four Accounting Firms), 0 (Non-Big Four Accounting Firms)	Index

Population and Sample

In this research, the population used is companies that conduct IPOs for the 2017 – 2019 period with totaling 141 companies. From this population, researchers took samples using the judgment sampling method based on certain criteria. Sample selection criteria explained as follows:

Table 2. Sampling Criteria

Description	Number of companies
Company IPO 2017 - 2019	149
Companies that don't experience underpricing	-10
Companies that enter the sector financial/banking	-8

Companies that don’t have completeness of information	0
Companies presenting financial statement in foreign currency	0
Outlier	-41
Total Sample	**90**

Result and Discussion

Descriptive Analysis

Table 2. Descriptive Analysis Results

	N	Minimum	Maximum	Mean	Std. Deviation
ROA	90	-0.78	0.21	0.16	**0.10**
LEV	90	-134.32	6.06	-2.24	**14.15**
LNTA	90	7.05	15.41	12.64	**1.46**
RU	90	0.00	1.00	0.08	**0.27**
RA	90	0.00	1.00	0.07	**0.25**
IR	90	0.11	0.70	0.5722	**0.11482**
Valid N (Listwise)	**90**				

Source: Output IBM SPSS 25

Table 3. Underwriter’s Frequency

	Reputasi *Underwriter*	*Frequency*	*Percent*
Valid	*Non Top Ten Underwriter*	83	**92.2%**
	Top Ten Underwriter	7	**7.8%**
	Total	**90**	**100.0%**

Source: Output IBM SPSS 25

Table 4. Auditor’s Frequency

	Reputasi Auditor	*Frequency*	*Percent*
Valid	*Non Big Four Accounting Firms*	84	**93.3%**
	Big Four Accounting Firms	6	**6.7%**
	Total	**90**	**100.0%**

Source: Output IBM SPSS 25

Classical Assumption Test Analysis

The following is a summary of the results of the classical assumption test processing:

Table 5. Classical Assumption Test Analysis

Type of Test	Result	Conclusion
Normality Test	Asymp. Sig = 0.001	Had not Normally Distributed
Heteroscedasticity Test	ROA = 0.595	Did not contain symptoms of heteroscedasticity
	LEV = 0.384	
	LNTA = 0.916	
	RU = 0.840	
	RA = 0.860	
Multicollinearity Test	Tolerance = 0.259, 0.262, 0.852, 0.932, 0.808	No Multicollinearity Occurs
	VIF = 3.867, 3.812, 1.173, 1.073, 1.232	
Autocorrelation Test	Durbin-Watson = 2.043	There is no autocorrelation problem

The results of the Kolmogorov-Smirnov test showed that the data had not normally distributed. This can be seen from the results of asymp sig of 0.001 smaller than 0.05 (5%). So, it can be concluded that the hypothesis Ho in the normality test rejected, and Ha accepted. However, according to Bowerman (2017:334) in his book entitled "Business Statistics in Practice" in theory "The Central Limit Theorem" says that "If the sample size n is but large, then the population of all possible sample means is approximately normally distributed, no matter what probability distribution describes the sampled population. Furthermore, the lager the sample size n is, the more nearly normally distributed is the population of all possible sample means "It can be concluded that if this research using a sample that conforms to The Central Limit Theorem, then the results of the data will be closer to normal.

Based on table 5 above, it shows that Durbin Watson value (DW Count) is 2.043. This value is then compared with the value of dU in the Durbin Watson table of 5% with the number of samples (n) of 90 and the number of independent variables (k) of 5. The dU value obtained in the Durbin-Watson table is 1.75 and less than 4 – dU (2.25), it can be concluded that there is no autocorrelation problem in the equation 1 model because $dU < d < 4 - dU$ ($1.75 < 2.043 < 2.25$).

Multiple Linear Regression Analysis

Table 6. Multiple Linear Regression Analysis

Variable	Unstandardized Coefficients		Standardized Coefficients	Sig
	B	Std. Error	Beta	
(Constant)	0.915	0.085		0.000
ROA	-0.753	0.179	-0.640	0.000
LEV	0.004	0.001	0.443	0.004
LNTA	-0.024	0.007	-0.307	0.000
RU	-0.159	0.034	-0.372	0.000
RA	-0.190	0.040	-0.414	0.000

Source: Author Processed Data, 2021

The Linear Regression Equation obtained based on table 9 as follows:

$$Y = 0.915 - 0.753\ ROA + 0.004\ LEV - 0.024\ LNTA - 0.159\ RU - 0.190\ RA$$

Coefficient of Determination Test (R^2)

Table 7. Coefficient of Determination Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.703[a]	0.494	0.464	0.8406

Source: Author Processed Data, 2021

Based on table 7 above, shows that the value of the coefficient of determination (R^2) is 0.464 or 46.4%. This shows that 46.4% of the underpricing rate is influenced by return on assets (ROA), financial leverage (LEV), firm size (LNTA), underwriter's reputation (RU), and auditor's reputation (RA). While the remaining 53.6% is explained by other variables outside of this study.

Simultaneous Hypothesis Test (F-test)

Table 8. Simultaneous Hypothesis Test

	Model	Sum of Square	df	Mean Square	F	Sig
1	Regression	0.580	5	0.116	16.408	0.000[b]
	Residual	0.594	84	0.007		
	Total	**1.173**	**89**			

Source: Author Processed Data, 2021

From the results of table 8 above, a significant value of 0.00 is obtained or less than a significance level of 0.05. In addition, the calculated F value is 16,207, while the table

F value is obtained from (Df1/Df2). The F table value obtained is 2.30. The calculated F value is greater than the table F value, it can be concluded that the independent variables in this study are Return on Assets (ROA), financial leverage (DER), company size (LNTA), underwriter reputation (RU), and auditor reputation (RA) simultaneously affects the level of underpricing.

Partial Hypothesis Test (t-test)

Table 12. Partial Hypothesis Test

Variable	Unstandardized Coefficients		Standardized Coefficients	t	Sig/2
	β	Std. Error	Beta		
(Constant)	0.919	0.085		10.734	**0.000**
ROA	-0.753	0.179	-0.621	-4.196	**0.000**
Financial Leverage	0.004	0.001	0.428	2.922	**0.002**
Firm Size	-0.024	0.007	-0.306	-3.647	**0.000**
Reputasi Underwriter	-0.159	0.034	-0.372	-4.631	**0.000**
Reputasi Auditor	-0.190	0.040	-0.416	-4.796	**0.000**

Source: Author Processed Data, 2021

1. **Return on Asset (ROA) towards underpricing level**
   Based on the results of the t-test in table 12 above, the ROA variable has a significant value of 0.000 which means it is below the 0.05 significant level (0.000 < 0.05). which means that return on assets has a significant negative effect on the level of underpricing of non-financial companies conducting Initial Public Offering (IPO) on the Indonesia Stock Exchange (IDX) for the period 2017 – 2019. The coefficient value of -0.753 indicates a negative direction between ROA and the level of underpricing. This negative direction indicates that the higher the ROA value of a company, the lower the level of underpricing when the company conducts an initial public offering (IPO).
2. **Financial Leverage (LEV) towards underpricing level**
   Based on the results of the t-test in table 12 above, the financial leverage variable measured by the Debt-to-Equity Ratio (DER) has a significant level of 0.002 or is below the significant level of 0.05 (0.002 < 0.05) with a coefficient value of 0.004 indicates a positive direction between financial leverage and underpricing. This means that financial leverage has a significant positive effect on the level of underpricing in non-financial companies conducting Initial Public Offering (IPO) on Indonesia Stock Exchange (IDX) for the period 2017 – 2019. This positive direction shows that the higher the financial leverage value of a company, the

higher the level of underpricing when the company conducts an initial public offering (IPO).

3. **Firm Size (LNTA) towards underpricing level**

Based on the results of the t-test in table 12 above, the firm size variable (LNTA) has a significant level of 0.000 which means it is below the 0.05 significant level (0.000 < 0.05). This means that company size has a significant negative effect on the level of underpricing of non-financial companies that conduct initial public offerings (IPOs) on the Indonesia Stock Exchange (IDX) for the period 2017 – 2019. The coefficient value of -0.024 indicates a negative direction between company size and the level of underpricing. This negative direction indicates that the higher the size of a company, the lower the level of underpricing when the company conducts an initial public offering (IPO).

4. **Underwriter's Reputation (RU) towards underpricing level**

Based on the results of the t-test in table 12 above, the underwriter's reputation variable (RU) has a significant level of 0.000 which is below the 0.05 significant level (0.000 < 0.05). This means that underwriter reputation has a significant negative effect on the level of underpricing of non-financial companies that conduct initial public offerings (IPOs) on the Indonesia Stock Exchange (IDX) for the 2017 – 2019 period. The coefficient value of -0.159 indicates a negative direction between underwriter reputation and the level of underpricing. This negative direction indicates that the higher the reputation of the underwriter, the lower the level of underpricing when the company conducts an initial public offering (IPO).

5. **Auditor's Reputation (RA) towards underpricing level**

Based on the results of the t-test in table 12 above, the auditor's reputation variable (RA) has a significant level of 0.000 which means it is below the 0.05 significant level (0.000 < 0.05). This means that auditor reputation has a significant negative effect on the level of underpricing of non-financial companies that conduct initial public offerings (IPOs) on the Indonesia Stock Exchange (IDX) period 2017 – 2019. The coefficient value of -0.190 indicates a negative direction between the reputation of the auditor and the level of underpricing. This negative direction indicates that the higher the reputation of the auditor, the lower the level of underpricing when the company conducts an initial public offering (IPO).

Discussion

The Effect of Return on Asset on the Level of Stock Underpricing

Hypothesis 1 is accepted where return on assets has a negative effect on the level of stock underpricing. Return on assets outlines a company's ability to generate profits from its assets. One of the considerations investors consider before investing in any company is to look at their ROA ratio. Furthermore, the higher the ROA ratio, the lower the risk for investors who want to be undervalued as well, as the company can use its assets to generate profits (Yuniarti and Syarifudin, 2020). This is supported by studies by Saputra and Suaryana (2016), Yuniarti and Syarifudin (2020), who can demonstrate that return on investment (ROA) negatively affects the level of underpricing.

The Effect of Financial Leverage on the Level of Stock Underpricing

Hypothesis 2 is accepted where financial leverage has a positive effect on the level of stock underpricing. Financial leverage is used to increase expected profit levels. The higher a company's debt, the more risk (high risk) investors are exposed to (Toni et al., 2021, p. 9). In this study, the debt-to-equity ratio (DER) was used as the leverage ratio. Because this DER describes the debt of a company financed by equity. The higher the DER ratio, the higher the risk for investors, so investors avoid stocks with high DER value. This leads underwriters to offer lower initial offering prices for stocks with high DERs. When the DER value is high, this can lead to underpricing. This is supported by studies by Pahlevi (2014) and Saputra and Suaryana (2016), showing that financial leverage has a positive effect on underpricing.

The Effect of Firm Size on the Level of Stock Underpricing

Hypothesis 3 is accepted where firm size has a negative effect on the level of stock underpricing. Firm size is a measure that expresses or describes the size of a company. The size of the company is measured by total sales, average sales, and total assets. Therefore, the size of the company can be used as a proxy for the level of uncertainty, as the larger the company, the more likely it will be found that the company is better known than smaller companies. This proxy becomes an investor's consideration for investing capital in the company because as the company grows, the information investors can get from the company is more readily available and uncertainty about the value of the company can be reduced, affecting lower inhibitions. Valence levels (Yuniarti and Syarifudin 2020) (Agustiningsih et al. 2014). This is supported by studies by Yuniarti and Syarifudin (2020), Saputra and Suaryana (2016), and Pratama and Sudjarni (2017) and Agustiningsih et al. (2014) which state that firm size has a significant negative effect on underpricing.

The Effect of Underwriter's Reputation on the Level of Stock Underpricing

Hypothesis 4 is accepted where the underwriter's reputation has a negative effect on the level of stock underpricing. As underwriters recommend companies to go public, underwriters play a very important role in determining the price in the primary market. Of course, this allows leading underwriters to understand the market and see when it's time to assess whether an issuer is worthwhile and which ones have bright futures. The underwriter's reputation can also serve as a positive signal for investors to determine the best price and provide input. - Enter possible risks. Information provided to investors can also be more trusted when the underwriter is reputable. If the securities sold are not sold, the underwriters face the risk of losing money by having to carry illiquid securities. Reputable underwriters will not issue underperforming issuers, and underperforming underwriters will continue to issue underperforming issuers at low initial price so that investors are attracted to the issuer. So that, underwriters who have a good reputation can reduce the level of underpricing (Kuncoro and Suryaputri 2019) (Gwenyth and Panjaitan, 2018). This is in line with the results of research conducted by Kuncoro and Suryaputri (2019), Putra and Sudjarni (2017), Gumanti et al (2015), Purwanto and Cahyaningrum (2019), Agustiningsih et al (2014) which show that underwriter reputation has an influence significant negative for underpricing.

The Effect of Auditor's Reputation on the Level of Stock Underpricing

Hypothesis 5 is accepted where the auditor's reputation has a negative effect on the level of stock underpricing. Auditing is one of the processes carried out by a team of auditors who have been certified before the financial statements are published so that the information submitted in the financial statements can be trusted by users of financial statements. Audited financial statements are very important and needed for decision-making for both internal and external parties of the company and must provide a higher level of trust. Therefore, the reputation of the auditor is very important because an auditor who has a strong reputation can reduce the level of fraud so as to increase the trust of users of financial statements. Companies that use reputable auditors from the big four show a low level of underpricing because the published information can be trusted by investors (Ariyani and Ismanto 2019) (Rosyidah, 2015). This is supported by the results of research conducted by Ariyani and Ismanto (2019), Gwenyth and Panjaitan (2018), and Rosyidah (2015) which show that auditor reputation has a significant negative effect on the level of underpricing. Meanwhile, research conducted by Maulana and Putra (2020) shows that auditor reputation has no effect on underpricing.

Conclusion Suggestion

Conclusion

The study aims to analyze the effect of the Return on Asset, financial leverage, firm size, underwriter's reputation, and auditor's reputation on the level of stock underpricing. Based on the analysis of this research, it can be concluded that:

1. Return on assets (ROA) has a negative effect on the level of stock underpricing.
2. Financial Leverage (LEV) has a positive effect on the level of stock underpricing.
3. Firm Size (LNTA) has a negative effect on the level of stock underpricing.
4. Underwriter's Reputation (RU) has a negative effect on the level of stock underpricing.
5. Auditor's Reputation (RA) has a negative effect on the level of stock underpricing.

Suggestion

Based on the conclusion above then the appropriate suggestions are as follows:

1. Next research is expected to use a larger sample and concerns many sectors such as financial services companies who registered on Indonesia Stock Exchange which is not included in the sample of this study. So that the research results can represent the entire industry because this research does not represent the financial/banking sector.
2. For further researchers, it is expected to use other variables outside of this study because the influence of the independent variables in this study only affects 46,4%.
3. For companies that are prospective issuers that will go public, they are expected to be able to pay attention to how the financial conditions and performance will be listed in the prospectus before conducting an Initial Public Offering (IPO), because the Return on Assets and firm size can minimize the level of underpricing, in addition to that, the use of underwriters and auditors with a good reputation can minimize the level of underpricing. On another side, financial leverage can increase the level of underpricing.

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