INITIAL PUBLIC OFFERINGS:
THE INFLUENCE OF UNDERWRITER AND AUDITOR REPUTATION ON
IPO UNDERPRICING.

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Abstract

Objectives The main purpose of this thesis is to examine whether the Reputations of Underwriters and Auditors influence the underpricing of share price in the Indonesian Stock Exchange. This study can be a contribution to provide knowledge to Indonesian companies who are considering initiating public offerings. Furthermore, this study is also useful for further research, and is expected to be additional material and references for subsequent studies of its kind.

Method In this research, the samples used are the number of companies listed in the year 2004 to 2009 in the Indonesia Stock Exchange (IDX). The total number of samples would be 66 companies, taken from prior study period. These data are analyzed using Regression and Correlation Analysis. Other than reputation of underwriter and auditor, financial ratios such as Return on asset, Current ratio, Debt equity ratio, and Total asset turnover are used as controlled variables.

Results The results revealed that Reputation of Underwriter and Auditor do have significant influence on Initial Return; hence Underpricing. The findings of the study show that reputations of underwriters and auditors have significant negative impact on initial return of shares. The results show higher reputations cause lower initial returns of shares; thus stating the higher the level of underpricing. However the financial ratios used as controls variables, do not have significant impact on underpricing of shares.

Conclusion Reputations of Underpricing and Auditor do play an important factor in pricing of shares. A company, which hires a more reputable underwriter or auditor, will have the tendency to offer shares at a higher price.

Key Words Reputation of Underwriter and Auditor, Return on asset, Current ratio, Debt equity ratio, Total asset turnover, Initial Return, Underpricing.