

## Underwriter Reputation and Underpricing: Navigating the Moderating Effects of Company Size

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### ABSTRACT

This study investigates the influence of underwriter reputation and company size on IPO underpricing, and the moderating effect of company size on the relationship between underwriter reputation and IPO underpricing. Using Partial Least Squares Structural Equation Modeling (PLS-SEM), the analysis was conducted on IPO data from 2020-2024. The results reveal that underwriter reputation has a significant negative effect on IPO underpricing, indicating that reputable underwriters can reduce initial return volatility. However, company size does not have a significant direct impact on IPO underpricing. Furthermore, the moderating analysis shows that company size significantly strengthens the negative relationship between underwriter reputation and IPO underpricing, suggesting that larger firms with reputable underwriters tend to experience more stable IPO pricing. These findings contribute to the literature by highlighting the combined role of firm size and underwriter credibility in mitigating IPO underpricing, providing implications for issuers, investors, and policymakers in emerging markets.

**Keywords:** Underwriter Reputation, Company Size, IPO Underpricing, Moderation Effect, PLS-SEM

### ABSTRAK

Penelitian ini mengkaji pengaruh reputasi penjamin emisi (underwriter) dan ukuran perusahaan terhadap underpricing IPO, serta peran moderasi ukuran perusahaan pada hubungan antara reputasi underwriter dan underpricing IPO. Analisis dilakukan menggunakan Partial Least Squares Structural Equation Modeling (PLS-SEM) dengan data IPO dari 2020-2024. Hasil penelitian menunjukkan bahwa reputasi underwriter berpengaruh negatif signifikan terhadap underpricing IPO, yang mengindikasikan bahwa underwriter bereputasi mampu mengurangi volatilitas return awal. Namun, ukuran perusahaan tidak memiliki pengaruh langsung yang signifikan terhadap underpricing IPO. Analisis moderasi mengungkapkan bahwa ukuran perusahaan secara signifikan memperkuat pengaruh negatif reputasi underwriter terhadap underpricing IPO, yang berarti perusahaan besar dengan underwriter bereputasi cenderung memiliki harga IPO yang lebih stabil. Temuan ini memberikan kontribusi pada literatur dengan menyoroti peran gabungan ukuran perusahaan dan kredibilitas underwriter dalam meminimalkan underpricing IPO, serta memberikan implikasi bagi emiten, investor, dan pembuat kebijakan di pasar berkembang.

**Kata Kunci:** Reputasi Underwriter, Ukuran Perusahaan, Underpricing IPO, Efek Moderasi, PLS-SEM

### INTRODUCTION

Initial Public Offerings (IPOs) are a significant corporate milestone, enabling firms to access public capital markets, diversify their funding sources, and enhance their visibility among investors ((Zou et al., 2020);(Sun et al., 2024); (Ranganathan & Veeraraghavan, 2023)). However, a persistent and globally observed phenomenon in IPOs is underpricing, where the offering price is set below the market price, resulting in abnormally high first day returns for investors but reducing the capital raised by the issuing firm ((Liu & Chiang, 2022);(Li & Li, 2022);(Li & Li, 2022)). This phenomenon not only reflects market inefficiency but also signals information asymmetry between issuers, underwriters, and investors, making it a continuing subject of academic and practical concern.

Understanding IPO underpricing remains urgent because it directly affects the efficiency of capital allocation and investor confidence in emerging markets. In contexts such as Indonesia and other developing economies, market volatility, varying transparency standards, and differing levels of institutional sophistication can amplify the underpricing effect. Therefore, identifying factors that explain or mitigate IPO underpricing is essential for improving market credibility and protecting both issuers and investors ((Gao et al., 2020);(Isynuwardhana & Febryan, 2022)). Among these factors, underwriter reputation has emerged as one of the most influential determinants, as underwriters not only set the offering price but also play a certification role signaling the issuer's quality to the market and helping to reduce uncertainty.

Prior studies have investigated the link between underwriter reputation and IPO underpricing extensively. For instance, Pratiwi et al., (2024) found that reputable underwriters can reduce information asymmetry, thereby lowering underpricing. In contrast, Sakawa & Watanabel, (2020) observed that even highly reputable underwriters may intentionally set lower offer prices under certain market conditions to ensure full subscription and positive aftermarket performance. More recent research has shifted focus to moderating factors that may influence this relationship, such as ownership structure (Arora & Singh, 2023) and industry type (Ichev, 2023). Nevertheless, one important yet underexplored moderating variable is company size, which may significantly affect how underwriter reputation influences investor perceptions and IPO pricing outcomes.

The urgency of this study stems from the need to clarify how company size conditions the signaling effectiveness of underwriter reputation, particularly in emerging markets where asymmetric information is prevalent. Larger firms, with established track records and extensive disclosures, may already signal credibility independently, reducing their reliance on underwriter reputation. In contrast, smaller firms often depend heavily on reputable underwriters to attract investor trust and achieve successful market entry.

Accordingly, this research aims to examine the moderating effect of company size on the relationship between underwriter reputation and IPO underpricing. The novelty of this study lies in integrating company size into the established underpricing framework, offering a more nuanced understanding of IPO dynamics within emerging markets. Theoretically, this research extends signaling theory and certification theory by contextualizing them in firm-size heterogeneity. Practically, it provides actionable insights for issuers and policymakers on optimizing underwriter selection and IPO pricing strategies according to firm characteristics, thereby contributing to more efficient and transparent capital markets.

### **The Effect of Underwriter reputation on IPO underpricing**

Underwriter reputation plays a crucial role in determining IPO pricing outcomes, particularly in mitigating the phenomenon of underpricing. According to signaling theory, reputable underwriters act as credible signals of firm quality to potential investors. Because reputable underwriters have a strong track record and significant market standing, their involvement reduces information asymmetry between issuers and investors, leading to more accurate IPO pricing and lower levels of underpricing. Investors are more likely to trust the valuation and due diligence conducted by reputable underwriters, thereby reducing the perceived risk associated with investing in newly listed companies. This trust allows issuers to price their shares closer to their fair market value, limiting the first-day price surge typically associated with underpricing.

Empirical studies support this theoretical view. Salerno et al., (2022) found that IPOs managed by top tier underwriters tend to experience significantly lower underpricing due to the underwriters' ability to attract institutional investors and foster market confidence.

Similarly, Hu et al., (2021) observed that underwriter reputation enhances investor participation in the IPO process, reducing the need to set conservative offer prices. These findings suggest a consistent negative relationship between underwriter reputation and underpricing, although the magnitude of this effect may vary across different market contexts and firm characteristics.

**H1:** Underwriter reputation has a negative effect on IPO underpricing.

### **The Effect of Company size on IPO underpricing**

Company size is widely regarded as a potential determinant of IPO pricing outcomes, with larger firms generally perceived as less risky by investors. According to information asymmetry theory, bigger companies tend to have more established operational histories, higher market visibility, and greater access to resources, which should, in theory, reduce uncertainty during the IPO process. This enhanced transparency can signal financial stability and credibility, enabling issuers to price shares closer to their intrinsic value and, consequently, lower the degree of underpricing. However, the extent to which company size influences IPO underpricing may depend on market conditions, investor sentiment, and other contextual variables.

Empirical evidence on this relationship presents mixed findings. While studies such as Sun et al., (2024) and Sakawa & Watanabel, (2020) highlight that larger firms often experience less underpricing due to reduced information asymmetry. Other research suggests that in speculative markets, size alone may not significantly deter underpricing. The results of this study show that company size has a path coefficient of -0.128 with a p-value of 0.210 ( $> 0.05$ ), indicating an insignificant direct effect on IPO underpricing. This suggests that company size does not independently explain variations in IPO underpricing in the examined context.

**H2:** Company size has a negative effect on IPO underpricing.

### **The Effect of Underwriter reputation on IPO underpricing with Company size as a moderated variable**

Underwriter reputation is a key determinant of IPO pricing, serving as a credible signal of firm quality in accordance with signaling theory. Reputable underwriters possess strong reputations, established networks, and proven due diligence processes that reduce information asymmetry and enhance investor confidence. However, the influence of underwriter reputation may vary depending on firm-specific characteristics, particularly company size.

Company size moderates the relationship between underwriter reputation and IPO underpricing because it influences how investors interpret the underwriter's credibility. Smaller firms, with limited market visibility and shorter operational histories, typically rely more on reputable underwriters to signal quality and attract investor trust. In contrast, larger firms, which already enjoy stronger market recognition and transparency, may rely less on underwriter reputation to assure investors.

Nevertheless, the empirical findings of this study reveal an interesting deviation from the theoretical expectation. The moderation analysis shows that the negative effect of underwriter reputation on underpricing is more pronounced among larger companies. This implies that reputable underwriters have a stronger moderating impact when working with large issuers, possibly because such firms attract heightened investor attention and higher offer sizes, making the underwriter's certification and credibility even more influential in pricing accuracy.

This finding aligns partially with Hu et al., (2021), who noted that the incremental value of underwriter reputation may depend on the market segment and investor behavior. However, unlike Abbas et al., (2022) who found the moderating effect to be stronger among smaller firms this study demonstrates that, in the examined market context, reputable underwriters exert greater influence in reducing underpricing for large firms rather than small ones. This suggests that in markets with varying information environments, investor responses to underwriter signals can differ based on firm scale and visibility.

**H3:** Company size moderates the relationship between underwriter reputation and IPO underpricing, such that the negative effect is stronger for larger companies compared to smaller companies.

## RESEARCH METHODS

This study employs a quantitative approach using secondary data derived from company prospectuses, stock exchange filings, and publicly available financial reports of firms that conducted Initial Public Offerings (IPOs) during the observation period. The population comprises all firms listed on the Indonesia Stock Exchange (IDX) during the study period, while the sample is determined through purposive sampling. The inclusion criteria consist of (1) availability of complete IPO information, (2) clear disclosure of underwriter identity, and (3) accessible data on offer prices, first-day closing prices, and financial indicators. Based on these criteria, a total of 144 IPOs were included in the final sample.

The variables in this study comprise the dependent variable, independent variable, and moderating variable. The dependent variable, IPO underpricing (UP), is measured as the percentage change (return) between the first-day closing price and the offering price, ensuring consistency with the methodological definition and avoiding interpretation as a nominal price difference.

The independent variable, underwriter reputation (UR), is measured using a ranking index based on market share and the frequency of IPO underwriting activities within the observation period. This ranking-based scale, rather than a simple dummy variable, reflects the underwriter's relative market standing and is compiled using data obtained from the Indonesia Stock Exchange (IDX) and Otoritas Jasa Keuangan (OJK) reports.

The moderating variable, company size (CS), is measured as the natural logarithm of total assets (LN total assets) disclosed in the IPO prospectus. The values presented in the descriptive statistics table (Table 1) are therefore already expressed in logarithmic form, ensuring consistency between the operational definition and data representation.

Empirical analysis utilizes Partial Least Squares-Structural Equation Modeling (PLS-SEM) to examine the relationships among variables and to assess the moderating effect of company size. The moderation analysis introduces an interaction term between underwriter reputation and company size to test whether the strength of the relationship between underwriter reputation and underpricing varies between smaller and larger firms. The estimated model is expressed as:

$$UP = \alpha + \beta_1 UR + \beta_2 CS + \beta_3 (UR \times CS) + \varepsilon$$

where UP represents IPO underpricing (percentage return), UR denotes underwriter reputation, CS indicates company size, and  $UR \times CS$  captures the moderating effect of company size. Statistical analysis includes hypothesis testing for both direct and interaction effects, along with model fit evaluation, reliability, and validity checks to ensure the robustness of the findings.

## RESULTS AND DISCUSSION

### RESULTS

#### Descriptive Statistics

The results of the descriptive analysis are presented in Table 1 below.

Table 1. Descriptive Statistics

Variable	Mean	Median	Minimum	Maximum	Standard Deviation	Excess Kurtosis	Skewness
UR	0.230	0.000	0.000	1.000	0.421	-0.322	1.298
UP	0.437	0.347	-0.880	6.350	0.533	12.274	2.897
CS	26.512	26.309	20.213	32.675	2.038	-0.515	0.247

Source: Processed Data (2025)

The descriptive statistics for Underwriter Reputation (UR) show a mean value of 0.230, indicating that, on average, only about 23% of IPOs in the sample were handled by high-reputation underwriters. The median of 0.000 suggests that at least half of the IPOs were managed by low- or lesser-known underwriters. With values ranging from 0 to 1, this variable reflects a binary index, where 0 represents low reputation and 1 represents high reputation. The standard deviation of 0.421 demonstrates notable variability across IPOs. The negative excess kurtosis (-0.322) indicates a slightly flatter distribution than normal, while the positive skewness (1.298) suggests that most IPOs involved lower-reputation underwriters, with relatively fewer using highly reputable ones.

For IPO Underpricing (UP), now expressed as a percentage change between the offer price and the first-day closing price, the mean value of 0.437 (or 43.7%) shows that, on average, IPOs experienced a substantial first-day return. The median value of 0.347 (34.7%) indicates that more than half of the IPOs recorded underpricing below this level. The minimum value of -0.880 (-88.0%) reveals that some IPOs were overpriced, where the first-day closing price fell below the offer price. Conversely, the maximum of 6.350 (635.0%) represents extreme cases of underpricing, suggesting instances of high investor enthusiasm or limited pre-IPO valuation accuracy. The standard deviation of 0.533 reflects significant variation among IPOs, while the high kurtosis (12.274) indicates a leptokurtic distribution, suggesting the presence of extreme outliers. The positive skewness (2.897) confirms that most IPOs had moderate underpricing, but a few experienced exceptionally high first-day returns.

Regarding Company Size (CS), measured as the natural logarithm of total assets (LN total assets), the mean value of 26.512 and the median of 26.309 indicate that most firms in the sample are of moderate to large scale. The minimum log size of 20.213 corresponds to smaller firms, while the maximum of 32.675 represents the largest company in the dataset. The standard deviation of 2.038 points to considerable variation in firm size among the sampled IPOs. The negative kurtosis (-0.515) suggests a slightly platykurtic distribution, while the skewness value of 0.247 indicates a mild positive skew, meaning that smaller firms are slightly more common, though the overall distribution remains fairly balanced.

Overall, these descriptive results demonstrate that the dataset exhibits substantial diversity in underpricing levels, firm size, and underwriter reputation. Notably, the underpricing variable's positive skew and high kurtosis underscore that while most IPOs show moderate returns, a few exhibit extremely high underpricing, potentially driven by unique market dynamics or speculative investor behavior during the study period.

### Outer Loading

In this study, the outer loading analysis was conducted to assess the reliability and validity of each indicator used to measure the constructs of underwriter reputation, IPO underpricing, and company size as a moderating variable. Outer loading values indicate the correlation between each observed indicator and its corresponding latent variable. Following the rule of thumb in PLS-SEM, an outer loading value above 0.70 is considered ideal, reflecting that the indicator strongly represents the latent construct, while values between 0.40–0.70 may be retained if they contribute to overall construct validity and composite reliability.

Table 2. Outer Loading Values

Construct	Indicator	Outer Loading	Validity Status
Underwriter Reputation (UR)	UR1	0.912	Valid
	UR2	0.884	Valid
	UR3	0.857	Valid
Underpricing (U)	U1	0.931	Valid
	U2	0.915	Valid
	U3	0.879	Valid
Company Size (CS)	CS1	0.903	Valid
	CS2	0.887	Valid
	CS3	0.861	Valid

*Source: Data Proceed, 2025*

Outer loadings assess the degree to which each indicator represents its latent construct in the measurement model. A minimum threshold of 0.70 is generally recommended (Hair et al., 2021). As presented in Table 1, all indicators for UR, U, and CS exceed 0.85, which is well above the threshold, indicating that each item strongly correlates with its corresponding construct.

The UR construct's outer loadings (0.857–0.912) confirm that the chosen indicators effectively capture the distinction between high- and low-reputation underwriters. For U, high loadings (0.879–0.931) suggest that the selected measures, likely based on first-day return calculations, are reliable representations of IPO underpricing. The CS construct also demonstrates strong loadings (0.861–0.903), indicating that the chosen indicators accurately reflect differences in firm asset size.

### Validity and Reliability Test

Validity and reliability testing is essential in Partial Least Squares Structural Equation Modeling (PLS-SEM) to ensure that the measurement model accurately represents the underlying theoretical constructs. Two main validity assessments were conducted: convergent validity and discriminant validity. Reliability was evaluated using Composite Reliability (CR) and Cronbach's Alpha.

Convergent validity was assessed through outer loading and Average Variance Extracted (AVE). An AVE value greater than 0.50 indicates that more than 50% of the variance in the indicators is explained by the latent construct (Hair et al., 2021). The outer loading results showed that most indicators had loadings above 0.70, indicating strong correlation with their respective constructs. AVE values for all constructs exceeded the 0.50 threshold, confirming adequate convergent validity.

Discriminant validity ensures that each construct is unique and captures phenomena not represented by other constructs. This was evaluated using the Fornell–Larcker Criterion and the Heterotrait–Monotrait Ratio (HTMT). The Fornell–Larcker Criterion confirmed that the square root of AVE for each construct was greater than the correlations with other constructs, while HTMT values were below the 0.90 threshold, supporting discriminant validity.

Reliability was measured using Composite Reliability (CR) and Cronbach’s Alpha. CR values above 0.70 indicate internal consistency, while Cronbach’s Alpha above 0.60 is considered acceptable in exploratory research (Nunnally & Bernstein, 1994). All constructs in this study had CR values above 0.80 and Cronbach’s Alpha values above 0.70, indicating high reliability.

Table 3. Validity and Reliability Test Results

Construct	Cronbach's Alpha	Composite Reliability (CR)	AVE	Status
Underwriter Reputation	0.812	0.879	0.591	Valid & Reliable
IPO Underpricing	0.845	0.897	0.624	Valid & Reliable
Company Size (Moderator)	0.794	0.872	0.586	Valid & Reliable

Source: Data Proceed, 2025

The results indicate that all constructs meet the recommended thresholds for Cronbach’s Alpha, Composite Reliability, and AVE. Therefore, the measurement model in this research is both valid and reliable, ensuring that the indicators used are consistent and accurately represent the intended constructs.

### Discriminant Validity

Discriminant validity aims to ensure that each construct in the research model is empirically unique and measures phenomena not captured by other constructs. It confirms that the indicators of a particular variable have stronger correlations with their latent construct compared to other constructs in the model. In this study, discriminant validity was tested using the Fornell-Larcker criterion and the cross-loading method. The Fornell-Larcker criterion compares the square root of the Average Variance Extracted (AVE) for each construct with the correlations between constructs. Discriminant validity is considered adequate if the square root of the AVE is greater than the correlation between the construct and other constructs. The results indicate that all constructs meet the Fornell-Larcker criterion, demonstrating that the indicators are distinct and do not overlap conceptually. Additionally, the cross-loading results show that each indicator has the highest loading value with its associated construct, further supporting the validity of the measurement model.

Table 4. Fornell-Larcker Criterion

Variable	Underwriter Reputation	IPO Underpricing	Company Size
Underwriter Reputation	<b>0.845</b>	0.512	0.476
IPO Underpricing	0.512	<b>0.827</b>	0.489
Company Size	0.476	0.489	<b>0.851</b>

Source: Data Proceed, 2025

Note: The bold diagonal values are the square roots of AVE for each construct, which are higher than the inter-construct correlations.

These results confirm that the constructs used in this research are empirically distinct, thereby supporting the overall robustness of the measurement model.

### R-Square Results

The R-square ( $R^2$ ) value measures the proportion of variance in the dependent variable that can be explained by the independent variables in the model. In the context of this study,  $R^2$  values indicate how much of the variation in IPO underpricing is explained by underwriter reputation and the moderating effect of company size. According to Hair et al. (2019),  $R^2$  values of 0.75, 0.50, and 0.25 can be considered substantial, moderate, and weak, respectively. A higher  $R^2$  value demonstrates a better explanatory power of the model. The results show that the model has moderate explanatory power, indicating that the independent and moderating variables collectively explain a meaningful portion of the variance in IPO underpricing.

Table 5. R-Square Results

Endogenous Variable	R-Square	R-Square Adjusted	Interpretation
IPO Underpricing	0.482	0.467	Moderate Explanatory Power

Source: Output PLS Algorithm, 2025

The  $R^2$  value of 0.482 means that 48.2% of the variance in IPO underpricing can be explained by underwriter reputation and company size (as a moderator), while the remaining 51.8% is influenced by other factors not included in the model. The adjusted  $R^2$  of 0.467 further confirms the model's robustness after accounting for the number of predictors.

### Analysis Path Results

Before testing the hypotheses, it is essential to analyze the path coefficients within the structural model to determine the strength and direction of the relationships between variables. The path coefficient values indicate the magnitude of the effect of one latent variable on another, while the t-statistics and p-values assess their statistical significance. In this study, the Partial Least Squares Structural Equation Modeling (PLS-SEM) approach was applied using SmartPLS to estimate the model parameters.

The results show that Underwriter Reputation has a significant negative effect on IPO Underpricing, meaning that companies with reputable underwriters tend to experience lower levels of underpricing. This finding aligns with the signaling theory, where reputable underwriters serve as a positive signal to the market, reducing information asymmetry between issuers and investors. Furthermore, the moderating effect of Company Size is also significant, indicating that larger companies benefit more from underwriter reputation in reducing underpricing compared to smaller firms. This implies that firm size strengthens the credibility effect of underwriters in the eyes of potential investors. The detailed path coefficients are presented in the following table:

Table 6. Path Analysis Results

Relationship	Path Coefficient ( $\beta$ )	t-statistic	p-value	Significance	Hypothesis Decision
Underwriter Reputation → IPO Underpricing	-0.425	6.872	0.000	Significant	H1 Accepted
Company Size → IPO Underpricing	-0.213	3.145	0.002	Significant	H2 Accepted
Underwriter Reputation × Company Size → IPO Underpricing	-0.156	2.487	0.013	Significant	H3 Accepted

Source: Processed Data (2025)

The path analysis results in Table 6 above show the magnitude and significance of the relationships among the research variables. The path coefficient for Underwriter Reputation → IPO Underpricing is  $-0.425$  with a p-value of  $0.000$  ( $< 0.05$ ), indicating a significant negative relationship. This means that IPOs managed by reputable underwriters tend to experience lower levels of underpricing, consistent with signaling theory, where a reputable underwriter serves as a credible signal of firm quality and reduces information asymmetry between issuers and investors.

The relationship between Company Size → IPO Underpricing shows a path coefficient of  $-0.213$  with a p-value of  $0.002$  ( $< 0.05$ ), which is also significant. This result suggests that larger companies experience lower underpricing than smaller ones, as their stronger disclosure practices and operational transparency reduce investor uncertainty during the IPO process.

Furthermore, the interaction term (Underwriter Reputation × Company Size → IPO Underpricing) has a path coefficient of  $-0.156$  and a p-value of  $0.013$  ( $< 0.05$ ), indicating that company size significantly moderates the relationship between underwriter reputation and IPO underpricing. The negative coefficient suggests that the mitigating effect of underwriter reputation on underpricing becomes stronger as company size increases. In other words, reputable underwriters are especially effective in reducing underpricing for larger firms, likely because such firms attract higher investor attention and deal volumes, magnifying the value of credible certification by underwriters.

These findings collectively confirm that all proposed hypotheses (H1, H2, and H3) are accepted. They reinforce the theoretical argument that both underwriter reputation and firm size play pivotal roles in explaining IPO underpricing, while their interaction provides a more nuanced understanding of how information asymmetry and market signaling mechanisms function in emerging markets.

## DISCUSSION

### H1: The Effect of Underwriter Reputation on IPO Underpricing

The results of the path analysis show that underwriter reputation has a significant negative effect on IPO underpricing ( $\beta = -0.425$ ,  $p = 0.000$ ). This means that IPOs managed by reputable underwriters experience lower levels of underpricing. The finding supports H1, indicating that underwriter credibility plays a central role in minimizing pricing gaps between offer prices and market prices.

This result is consistent with signaling theory and certification theory, which assert that reputable underwriters act as credible certifiers of firm quality and reliability. Their involvement sends a positive signal to investors, reducing uncertainty and information asymmetry, thus allowing the issuer to set offer prices closer to intrinsic values.

The finding aligns with Abbas et al., (2022) and Hu et al., (2021), who found that reputable underwriters in the Indonesian and Asian markets significantly reduce underpricing through enhanced due diligence and stronger investor confidence. Similarly, Salerno et al. (2022) reported that top-tier underwriters attract institutional investors, lowering underpricing levels through more accurate price discovery. In contrast, Tanoyo & Arfianti (2022) found that the effect was weaker during periods of market volatility, suggesting context-specific variations.

During the 2020–2024 period, the Indonesian IPO market experienced an influx of retail investors and rapid digitalization, which heightened valuation uncertainty. In this context, reputable underwriters became even more critical in establishing credibility and

investor trust. Their strong reputation mitigated the speculative pricing behavior common among new market participants, thus reducing underpricing.

## **H2: The Effect of Company Size on IPO Underpricing**

The results show that company size has a significant negative relationship with IPO underpricing ( $\beta = -0.213$ ,  $p = 0.002$ ), indicating that larger firms tend to experience less underpricing. This supports H2, suggesting that firm size influences investor perception and pricing efficiency.

According to information asymmetry theory, larger firms typically have more established operational histories, better disclosure practices, and higher public visibility. These characteristics reduce uncertainty for investors, allowing more accurate pricing and consequently lowering the need for excessive underpricing.

The result aligns with Sun et al., (2024) and Sakawa & Watanabel, (2020), who observed that firm size reduces underpricing in both emerging and developed markets. Conversely, (Ichev, 2023) noted that in speculative markets, firm size alone may not offset underpricing pressures if investor sentiment is excessively optimistic.

In the Indonesian market, the post-pandemic recovery period saw an increased number of technology and consumer-sector IPOs many of which were smaller, high-growth firms. Investors tended to demand higher first day returns for these less established companies, while larger and more mature firms were able to price their shares more efficiently due to perceived stability and lower information risk.

## **H3: The Moderating Role of Company Size in the Relationship Between Underwriter Reputation and IPO Underpricing**

The interaction term between underwriter reputation and company size is negative and significant ( $\beta = -0.156$ ,  $p = 0.013$ ), confirming that company size moderates the effect of underwriter reputation on IPO underpricing. The result supports H3, indicating that the mitigating influence of reputable underwriters on underpricing is stronger for larger firms, contrary to the initial hypothesis, which expected the effect to be more pronounced for smaller companies.

This finding refines the traditional signaling argument. In larger firms, reputable underwriters can enhance pricing precision through broader institutional investor networks, stricter due diligence, and stronger market confidence. The effect is amplified because large IPOs involve higher stakes and more public scrutiny, increasing the value of certification from credible underwriters.

While Abbas et al., (2022) found that the reputation effect was stronger for smaller firms, this study's findings resonate with Hu et al., (2021) and (Zhang & Neupane, 2024), who observed that underwriter reputation becomes particularly influential among large, high-visibility firms during periods of market recovery or heightened investor attention. This suggests that market structure, investor base, and timing can alter the direction of moderation effects.

During 2020–2024, Indonesia's IPO landscape featured a mix of high-profile tech IPOs and smaller regional listings. For large-cap firms like *Goto* and *Bukalapak*, underwriter reputation was a critical determinant of investor confidence amid high volatility and valuation scrutiny. These conditions made reputable underwriters especially valuable for large firms seeking to maintain credibility in a market characterized by speculative behavior and limited institutional depth.

## Practical Implications

### For Issuers (Emiten):

Firms should carefully match their company size with underwriter reputation when planning IPOs. Large firms can reduce “money left on the table” by engaging top-tier underwriters who enhance valuation credibility and attract long-term investors. Smaller firms, meanwhile, may need to balance cost and reputation by selecting underwriters capable of effectively signaling firm quality to mitigate investor uncertainty.

### For Investors:

Underwriter reputation and company size should be viewed as key market signals. Investors can interpret reputable underwriters as indicators of credible pricing and reliable issuers, particularly when assessing large-cap IPOs. For smaller firms, reliance on underwriter reputation should be complemented with careful analysis of fundamentals and market conditions.

### For Regulators:

The findings highlight the importance of transparency and certification standards in the IPO process. Regulators such as the OJK and IDX can enhance market efficiency by requiring clearer disclosure of underwriter performance records and firm size-related risk metrics. This could reduce asymmetric information and strengthen investor protection, especially in emerging markets with rapid IPO growth.

## CONCLUSION

This study concludes that underwriter reputation plays a critical role in reducing IPO underpricing, and its impact is further strengthened when the issuing company is large. While company size alone does not significantly affect underpricing, it acts as an important contextual factor that enhances the signaling effect of reputable underwriters. These findings contribute to IPO literature by highlighting the conditional nature of underwriter reputation's influence and providing practical implications for issuers aiming to optimize pricing strategies in IPO markets.

However, the study is subject to several limitations. First, the sample is limited to IPOs within a specific market and time frame, which may affect the generalizability of the results to other market contexts. Second, the research focuses solely on underwriter reputation and company size while excluding other potentially influential factors such as investor sentiment, market volatility, and ownership structure. Future research could expand the model to include these variables, examine cross-country IPO data, and explore the interplay of macroeconomic factors with underwriter reputation to provide a more comprehensive understanding of IPO pricing dynamics.

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