CHAPTER I
INTRODUCTION

1.1 Background of The Research

To remain competitive and survive in the long term amid an ever changing environment, companies must continually try to grow and adapt to economic developments. These days, competition exists in all aspects whether economic or business related and there are no longer any limits between one company and another. This competition is also characterized by the development and growth of technology, information, and innovation in every product created by companies. To be competitive, companies need to develop products that require significant capital and funding.

The funding requirements for developing competitive products mean that company management must choose suitable strategies for raising capital and securing funds to finance these products. In addition to the company's internal funding and bank loans, the company can also seek funding from external sources. Typically, these companies tap the capital market to raise large amounts of capital from external investors to address these issues by selling stocks, bonds, and their derivatives, as well as other securities, for trading on stock exchanges or in the capital market. According to Law Number 8 of 1995, capital market is Any transaction involving the public offering and trading of financial assets. It also includes the companies and experts in this industry, as well as public companies and the assets they issue.

Companies that wish to sell their stocks on the capital market must be go public companies. Companies that go public have broader access to funding sources and can enhance their competitiveness within the industry (Putri & Susilawati, (2025). In the capital market, companies that have gone public are referred to as issuers. The issuers are companies that go public to access the capital market (Tandelilin, 2017) Companies that go public become publicly traded companies, meaning they can be owned by the general public. An issuer, in this context, is a company that issues stocks or bonds. If a company chooses to sell a portion of its ownership to the general public or investors (go public), it does so for the first time through the issuance of securities or stocks this is more commonly known as an Initial Public Offering (IPO).

Initial Public Offering (IPO) is a crucial corporate event that marks a company's official transformation into a public entity (Wang et al., 2025). The IPO process involves three parties that will be directly involved: the issuer, the underwriter, and the investors. Companies typically decide to go public through an Initial Public Offering (IPO) in order to secure large scale alternative capital. The primary market is where this initial offering process happens (Tandelilin, 2017). In the primary market, stock prices are set by the issuer (the company) and the underwriter. After a company sells securities in the primary market, those securities are traded by investors in the secondary market. The trading relationship that occurs in the primary market is between investors and issuers. After this stage is finished, investors can freely trade the company's stocks on the Indonesia Stock Exchange (IDX), which is the secondary market.

The secondary market is where stocks are bought and sold, and their prices fluctuate depending on supply and demand (Abdurohim, 2021). Trading transactions that take place in the secondary market are between investors. Issuers do not receive any funds from activities in the secondary market. The company needs to be formally registered on the Indonesia Stock Exchange (IDX) before these stocks are allowed to be offered accessible to the general public. In the end, the capital market system is established on this whole order of events, from the initial public offering to the continuing trading on the stock exchange. The Financial Services Authority (OJK) is the agency responsible for regulating IPOs in Indonesia and also through an IPO, companies can disclose their financial and business information to potential investors, so that they can raise additional capital while formulating strategic plans for future growth (Islah & Adrianto, 2021).

One of the reasons companies conduct IPOs is to secure long term and short term financing without being burdened by interest payments. Companies are established to ensure their long-term sustainability in terms of capital needs, such as acquisitions, investments, debt repayment, expansion, and many other purposes.

Companies that go public each year are undergoing changes. In Indonesia, 460 companies have go public on the Indonesia Stock Exchange (IDX) over 2015-2024 period. The following is a list of businesses that went through an IPO between 2015 and 2024:

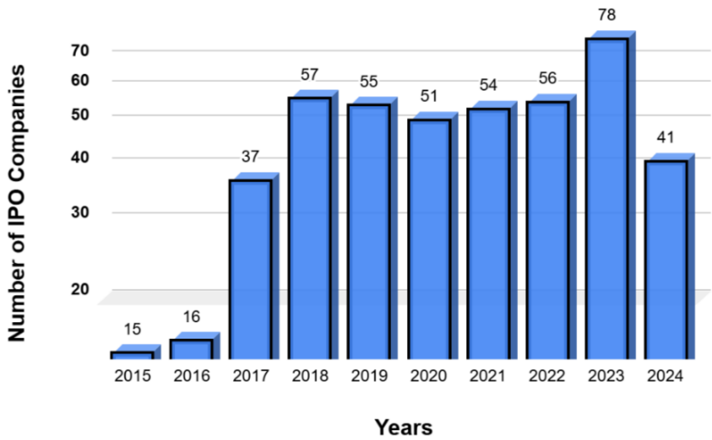

Figure 1.1 Companies conducting initial public offerings (IPO) on the Indonesia Stock Exchange (IDX) for the 2015-2024 period

Source: www.idx.co.id. Data processed by Author, 2026

As seen in Figure 1.1, the number of companies performing initial public offerings between 2015 and 2024 has shown fluctuating pattern during the period above, there were 15 IPOs in 2015. Then, in 2016 this number increase only one from the last year, it is 16. In 2017, this number more than doubled to 37 companies, and in 2018, it reached 57 companies. With 55 and 51 companies joining the market in 2019 and 2020, each of the new stock listings saw a slight slowdown and correction. This economic crisis was caused by financial risks such as economic instability during the start of the Covid-19 outbreak. However, the capital market showed its determination and started to return with 54 IPOs in 2021. This recovery trend continued from 2022 with 56 companies until finally backing off and hitting its highest level ever in 2023. In 2023, a record-high 78 companies successfully raised money through the Indonesia Stock Exchange (IDX), causing significantly of market enthusiasm. However, this high enthusiasm did not last long. A sharp decrease caused by a decrease of market sentiment after the enthusiasm of 2023. The number of first public offerings (IPOs) fell to just 41 companies in 2024. This sudden change from a record high to a sharp fall in a short period of time suggests that the primary market is highly unpredictable.

Underpricing is a problem that commonly occurs in capital markets around the world, including those in Indonesia. When the initial public offering (IPO) price is set too low, underpricing can occur. This is due to the fact that the price on the secondary market already reflects a market that is fully informed (Amelia & Adrianto, 2020) According to Deng & Liu, (2024) underpricing is defined as a condition in which the closing price of a stock on its first day of trading exceeds the previously determined offer price. Pricing below market value can be interpreted as a lost opportunity for the issuing company to raise more capital. To boost demand and attract investors willing to take risks on new businesses, the IPO price is purposely set below market value. This is highly beneficial for investors, as stocks purchased directly from the company at a low price can yield substantial profits when resold on the secondary market (Darmawan & Bustaman, 2024). The amount of underpricing is measured by the initial return, which is the difference between the stock price on the secondary market and the stock price at the time of the initial public offering (Aini, 2013).

The opposite phenomenon of underpricing is known as overpricing, which occurs when the offering price of an IPO is set higher than the closing price on the first day of trading in the secondary market. In this condition, investors who purchase shares at the offering price tend to suffer a loss, as the market price falls below the price they initially paid. Among the sectors listed on the Indonesia Stock Exchange, the technology sector exhibits this underpricing phenomenon most prominently. The empirical evidence about the high frequency of underpricing traps in technology-based companies listed on the IDX during the 2015-2024 period can be seen in detail in below:

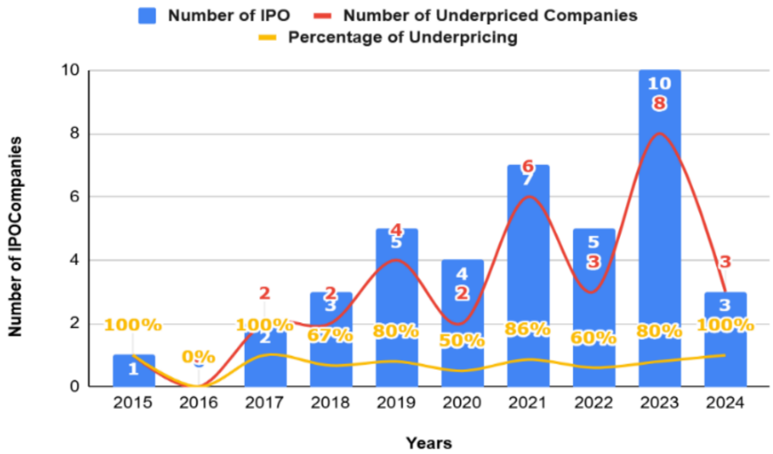

Figure 1.2 Frequency of Underpricing in Technology Companies Sector on IDX 2015-2024 Period

Source: www.finance.yahoo.com, 2026. Data processed by Author, 2026

Figure 1.2 above shows the frequency of underpricing among technology sector companies that conducted IPOs on the Indonesia Stock Exchange during the 2015-2024 period. Overall, the rate of underpricing in the technology sector remained consistently high throughout the period. Underpricing reached 100% in 2015, with 1 of 1 company affected, then dropped to 0% in 2016. The rate rose again to 100% in 2017, when 2 of 2 companies were underpriced, followed by 67% in 2018 with 2 of 3 companies, and 80% in 2019 with 4 of 5 companies. After declining to 50% in 2020, where 2 of 4 companies were affected, the rate climbed back to 86% in 2021 with 6 of 7 companies, and settled at 60% in 2022 with 3 of 5 companies. IPO activity peaked in 2023, when 8 of 10 technology companies were underpriced, equal to 80%, before underpricing returned to 100% in 2024 with 3 of 3 companies. Consequently, 31 of 40 technology IPOs were underpriced, the average annual underpricing percentage during 2015-2024 was 72.24%.

The urgency of this phenomenon is further amplified by the economic scale of technology-sector IPOs on the IDX. As explained earlier, the number of initial public offerings (IPOs) has fluctuated sharply over the past decade. However, behind this quantitative volatility lies a more fundamental qualitative shift, in recent years, the primary market has shown a trend toward fewer IPOs, but with larger and higher values (Deloitte, 2026), a dynamic that has gradually transformed the competitive landscape on the Indonesia Stock Exchange (IDX) and opened opportunities for new types of issuers to stand out. This shift reached a significant milestone when technology sector companies broke into the top ranks of the largest initial public offerings (IPOs) as of 2024. Technology sector have taken the top positions in the capital market, despite the fact that major companies from the consumer and energy sector have dominated it:

Table 1.1 The Companies with the Highest IPO Proceeds in IDX

Rank	Company (Code)	IPO's Year	Sector	IPO Value (IDR)
1	Bukalapak (BUKA)	2021	Technology	21.9 Trillion
2	Mitratel (MTEL)	2021	Infrastructure	18.8 Trillion
3	GoTo (GOTO)	2022	Technology	15.8 Trillion
4	Adaro (ADRO)	2008	Energy	12.3 Trillion
5	Amman (AMMN)	2023	Basic Materials	10.7 Trillion
6	Harita Nickel (NCKL)	2023	Basic Materials	9.9 Trillion
7	Pertamina Geothermal Energy (PGEO)	2023	Infrastructure	9.0 Trillion
8	Merdeka Battery Materials (MBMA)	2023	Basic Materials	9.2 Trillion
9	Blibli (BELI)	2022	Technology	7.9 Trillion
10	Indofood CBP (ICBP)	2010	Consumer Non-cyclical	6.3 Trillion

Source: Indonesia Stock Exchange (2024). Data processed by Author, 2026

It is shown in Table 1.1 above that technology companies not only make it into the top 10 list but also have the highest IPO records in Indonesian capital market history. Technology company PT Bukalapak.com Tbk (BUKA), which successfully raised IDR 21.9 trillion, holds the top spot. Another tech massive, PT GoTo Gojek Tokopedia Tbk (GOTO), with IDR 15.8 trillion, and PT Global Digital Niaga Tbk (BELI), with IDR 7.9 trillion, are right behind it. That makes these technological companies stand out among the biggest listings is the fact that such companies are quite difficult to value.

According to Hoffmann (2023), the valuation of a technology company, particularly one with startup characteristics, is usually considered as “more art than science” because these companies do not have past performance data and have financial structures that are fundamentally different from established companies. This lack of data forces investors to rely on subjective assessments and heuristics, which frequently lead to a significant inconsistency between a company’s subjective valuation and its actual fair value. This high valuation uncertainty causes high-tech companies to be perceived as riskier because of the very nature of their business, so they tend to be associated with a higher degree of underpricing (Teti & Montefusco, 2022). This gap happens inside the IPO process as information asymmetry, which is an information difference between the issuer and the prospective investors. As a result, this situation creates a challenge to find out an exact and objective value during the listing process, which often results in market anomalies such as underpricing as compensation for the risk and valuation uncertainty that investors bear (Wang et al., 2023).

There are two primary theories associated with this underpricing phenomenon, namely signaling theory and agency theory, both of which serve to explain the persistent pricing anomalies in the capital market. Signaling theory, this theory claims that companies communicate positive or negative signals to investors through IPOs, where underpricing can serve as a positive signal about the company’s quality and prospects, which helps in reducing information asymmetry between issuers and investors (Rafieldy & Yusrialis, 2023). Like agency theory can be the theoretical framework for the practice of disclosure of financial and non-financial information. Companies with strong prospects are prepared to accept the high costs resulting from this level of underpricing, their strong prospects give them the confidence that they will be able to cover those costs in the future.

This study focuses on underwriter reputation, ownership concentration, and earnings management because these variables can be integrated within signaling theory as the primary theoretical foundation, while agency theory provides a complementary explanation for the issuer’s internal governance and managerial behavior. In the IPO market, information asymmetry makes it difficult for prospective investors to assess the issuer's true quality and determine whether the offering price fairly reflects its condition and future prospects. Consequently, investors rely on observable and credible signals when evaluating an IPO, and their responses to these signals may be reflected in the magnitude of IPO underpricing (Spence, 1973). Underwriter reputation represents an external certification signal that may reduce information asymmetry, increase investor confidence, and improve the credibility of the IPO pricing process. Ownership concentration may signal the confidence of controlling shareholders in the company's future prospects and, from an agency perspective, strengthen managerial monitoring and reduce agency costs. Meanwhile, earnings management is included because managerial discretion in financial reporting may distort the credibility of the information presented in the IPO prospectus and increase uncertainty regarding the issuer's true value.

The level of underpricing is influenced by various factors, including ownership concentration, earnings management, and underwriter reputation. Ownership concentration is a condition where the ownership of a company's stock is concentrated on a small group of people or individuals who hold the highest level of ownership as the main managerial tool that combines the interests of stockholders with the company's management (managers). With ownership concentration, on one hand, ownership concentration serves to discipline managers by limiting their freedom of choice and allowing for more direct monitoring of managerial decisions, therefore sending a signal of confidence to the market. On the other hand, this brings the risk of taking over assets to minority shareholders, especially in environments with still limited investor protection systems (Attahiri et al., 2026).

The previous research by Attahiri et al. (2026) on the influence of ownership concentration showed that ownership concentration is negatively and significantly connected to the level of IPO underpricing in the North African IPO market. This is because a high level of concentration reduces agency costs by allowing more direct monitoring of managerial decisions, and because when a few large stockholders are owners of the majority of equity, they effectively signal their confidence in the the company's prospects to ignorant investors, lowering the information discount needed at the time of the offering.

This is also compatible with the previous research of Arora & Singh (2022) who found that ownership concentration had a negative and significant effect on IPO underpricing. Arora & Singh (2022) got that concentrated owners have an natural interest in minimizing underpricing as a large discount has a direct impact on their own wealth and will therefore attempt to ensure the company's value is maximized in a way that reflects the goals of controlling and minority stockholders. However, empirical findings on this relationship are not conclusive. Widarjo et al. (2019) found that ownership concentration has a positive effect on underpricing, as potential investors perceive a highly concentrated ownership structure as carrying the risk of expropriation by controlling shareholders, leading them to assign a lower valuation to the offering. Meanwhile, Teti & Montefusco (2022) found no significant evidence of the effect of ownership concentration on underpricing in the Italian IPO market. This inconsistency of previous findings constitutes a research gap that this study seeks to address in the context of technology sector companies listed on the IDX.

In addition to ownership concentration participation, earnings management is another factor that can influence the degree of underpricing through the use of accounting discretion to present an optimistic picture to potential investors. Earnings management is the use of internal company personnel's discretion in applying financial reporting standards, which can create information asymmetry and uncertainty for external investors (Bigus & Dreyer, 2023).

According Mangala & Dhanda (2022) shows that aggregate earnings management, measured using discretionary accruals (DA), significantly impacts stock returns on the first day of trading or underpricing. In IPO years, management typically optimizes the use of discretionary accruals only to enhance earnings performance, making the company appear more valuable and promising to the public than its fundamentals. However, a study by Deng & Liu (2024)contradicted this finding, showing that discretionary accruals had no significant impact on underpricing in the Hong Kong market. This inconsistency of empirical findings constitutes the research gap that this study seeks to address.

Another factor, underwriter reputation plays an important role in shaping the level of underpricing. Underwriters act as guarantors of the offering, serving as the contracting party with the company issuing the IPO stocks, with a specific obligation to purchase unsold stocks or to assume no liability (Febriyanto et al., 2023). Because reputable underwriters want to protect their good name, they tend to set offer prices closer to a company's true value, which is expected to reduce underpricing.

This view is supported by Barihas et al. (2024), who found that the higher the reputation of the underwriter, the lower the stock's first-day return. In line with this, Hu et al. (2021) found that underwriter reputation has a significant negative effect on underpricing in China's ChiNext market, where companies with reputable underwriters have lower market adjusted initial returns. This negative effect happens because reputable underwriters reduce the time lag between the offering and listing, select high quality companies, and reduce information asymmetry between issuers and investors. In contrast, Khairina et al., (2023) found that underwriter reputation has a positive and significant effect on the underpricing of IPOs on the Indonesia Stock Exchange, indicating that the empirical evidence on this relationship also remains mixed.

In these studies, besides independent and dependent variables, control variables are often needed to eliminate the influence of other factors that could affect the results of the study. The two control variables used in this research are firm age and firm size. A firm age is defined as the number of years counted from the date of the company's incorporation to the date of its IPO. This variable is used as a measure to assess a company's maturity and risk. Based on the ex-ante uncertainty hypothesis, older companies are considered more mature investments and carry lower risk than younger companies, therefore, in theory, older companies tend to have lower levels of underpricing. Firm size in this study was measured using the natural logarithm of total assets. Total assets are considered to reflect a firm's financial quality, with firms having larger assets deemed to be better able to attract investor interest in their stocks (Attahiri et al., 2026; Hu et al., 2021). Both represent important aspects of a company that can affect the level of underpricing

Based on the background described above, this study seeks to identify the factors that can influence underpricing during an IPO in technology companies. These factors must be examined to determine whether they have a significant positive or negative impact on the underpricing that occurs, so that such underpricing can be minimized. A study entitled, **"The Impact of Ownership Concentration, Earnings Management, and Underwriter Reputation on IPO Underpricing: Evidence from Technology Company Sector Listed on The Indonesia Stock Exchange 2015-2024 Period"**

1.2 Problem Statement

Based on the background described above, the research problems can be formulated as follows:

1. Does ownership concentration have a significant impact on the level of IPO underpricing in technology companies listed on IDX during 2015-2024?
2. Does earning management have a significant impact on the level of IPO underpricing in technology companies listed on IDX during 2015-2024?
3. Does underwriter reputation have a significant impact on the level of IPO underpricing in technology companies listed on IDX during 2015-2024?

1.3 Research Objectives

Based on the formulation of the problems above, the objectives of this research as follows:

1. To find out whether there is a significant effect of Ownership Concentration on IPO Underpricing in technology sector companies listed on the IDX during the 2015-2024 period.
2. To find out whether there is a significant effect of Earnings Management on IPO Underpricing in technology sector companies listed on the IDX during the 2015-2024 period.
3. To find out whether there is a significant effect of Underwriter Reputation on IPO Underpricing in technology sector companies listed on the IDX during the 2015-2024 period.

1.4 Research Contribution

This research is expected to provide contributions and benefits for various parties, which are as follows:

1. **Theoritical Contributions**

   a. **Extends Signaling Theory and Agency Theory**

This study contributes theoretically by extending the application of signaling theory and agency theory in explaining IPO underpricing, especially in technology-sector companies. The study shows how ownership concentration, earnings management, and underwriter reputation can act as governance mechanisms and market signals under conditions of information asymmetry.

   b. **Enriches IPO Underpricing Literature**

This study contributes to the literature by examining ownership concentration, earnings management, and underwriter reputation in one integrated model. By doing so, this research provides broader theoretical evidence on the determinants of IPO underpricing, particularly in the Indonesian capital market context.

   c. **Provides Technology IPO Evidence**

This study adds a contextual theoretical contribution by focusing on technology companies listed on the Indonesia Stock Exchange during the 2015-2024 period. Since technology firms tend to face higher uncertainty and valuation complexity, this research broadens theoretical understanding of IPO underpricing in emerging markets and sector-specific settings.

2. **Practical Contributions**

   a. **For Companies**

This study helps technology companies understand the factors that cause underpricing when they go public. By knowing how ownership concentration, earnings management, and underwriter reputation affect underpricing, companies can prepare better before their IPO. This may help them prepare a better IPO strategy and reduce the risk of mispricing their stocks.

   b. **For Investors**

This study helps investors make smarter decisions when buying IPO stocks. By understanding the signals that come from ownership concentration, earnings management, and the reputation of the underwriter, investors can better judge the real value of a company. This can help them lower their risk and avoid paying a price that does not match the company's true condition.

c. **For Academics**

This study adds to the existing knowledge about IPO underpricing, especially in the technology sector on the Indonesia Stock Exchange. It focuses on a sector that is still rarely studied in the Indonesian context, and it brings together three IPO signal ownership concentration, earnings management, and underwriter reputation in a single model. The results can become a useful reference for future researchers who want to study IPO underpricing or related topics.

1.5 Systematics of The Research

CHAPTER I: INTRODUCTION

This chapter outlines the background of the research, problem statement, research objectives, research contributions, systematics of the thesis, and scope of the research.

CHAPTER II: LITERATURE REVIEW

This chapter explains the theoretical foundation related to signaling theory, agency theory, ownership concentration, earnings management, underwriter reputation, IPO underpricing, and previous research findings that support this research.

CHAPTER III: RESEARCH METHODOLOGY

This chapter discusses the methods used in conducting the research, including the quantitative research design, population and sample of technology companies, secondary data sources, variables and measurement, and data analysis techniques using multiple regression models.

CHAPTER IV: RESULT AND DISCUSSION

This chapter presents the empirical findings of the research and discusses the results of the data analysis regarding the direct effects of ownership concentration, earnings management, and underwriter reputation on IPO underpricing.

CHAPTER V: CONCLUSION

This chapter presents the conclusion based on the research findings and provides suggestions for future research and relevant stockholders in the capital market.

1.6 Scope of The Research

This research focuses on technology-sector companies listed on the Indonesia Stock Exchange (IDX) that conducted their IPO during the 2015-2024 period. It examines three of factor: ownership concentration, earnings management, and underwriter reputation as the independent variables, with IPO underpricing as the dependent variable. Underpricing is measured using the initial return approach, namely the percentage difference between the first-day closing price and the offering price. The study relies entirely on secondary data obtained from company prospectuses, annual reports, financial statements, and official IDX trading records, applying a quantitative approach to examine the effects of these signals on IPO underpricing.