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Determinants of Underpricing in Islamic and Non-Islamic Shares on IPO

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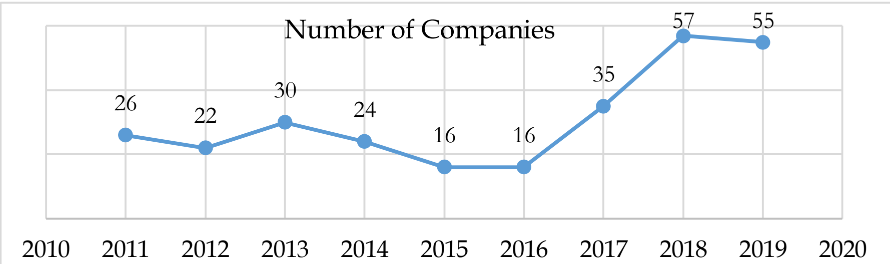
Abstract
This study aims at investigating the factors affecting the share's underpricing in service companies of the Initial Public Offering (IPO) on the Indonesia Stock Exchange (IDX) covering the period from 2011 to 2017. Compared to the precedent studies, this study provides an empirical comparison between Islamic and non-Islamic shares on 22 underpricing stock samples from 44 IPOs in Islamic service shares and 21 underpricing samples from 32 IPOs in non-Islamic service shares. This study adopts a multiple linear regression analysis and an independent sample t-test method. It is revealed that the underwriter's reputation and auditor's reputation have a significant effect on the underpricing of IPO on IDX, both in Islamic and non-Islamic service companies. The result of independent samples t-test indicates that Islamic service shares companies have better financial performance compared to non-Islamic service shares companies. Predicated upon the results, this study implicatively insinuates that companies based on Shariah compliance could anticipate the underpricing level more expeditiously since the Shariah principles are in line with the decreasing level of underpricing.

Keywords: Initial Public Offering (IPO); Underpricing; Islamic Shares; Non-Islamic Shares

Introduction

Investing in financial instruments has become popular among shareholders in recent times (Nugroho & Nanda, 2016). Nowadays, an investment in the form of investment products in the capital market is more preferred as it offers a relatively high rate of return. On the same matter, there is an increase in the number of companies that go public, specifically in the Indonesian stock exchange (IDX) as discerned in Graph 1.

Graph 1. New Companies Registered on IDX in 2011-2019



Source: Indonesia Stock Exchange (2020)

Graphic 1 delineates that in general, the number of new companies registered on IDX increases, especially in the last two years. This is in line with the IDX report (2020) that there are 57 new companies listed in 2018 with the total funds raised reached $US 1 Billion. In the same year, IFN (2018) additionally expounded that Indonesia became the most prominent retail market for the Islamic capital market in the world. It is also the second-highest country with the most significant funds collected through IPO shares. Furthermore, until January 15, 2020, the number of companies registered in IDX reached 677 companies. Thus, it denotes that the company and public awareness of financial management and investment have increased significantly. Moreover, Indonesia, as the most immense Muslim population in the world encourages the growth of shariah shares in IDX to increase significantly. This can be seen from the statistics report of the Financial Services Authority that the Jakarta Islamic Index (JII) and Indonesia Shariah Stock Index are improved as portrayed in Table 1.

Table 1. Development of Market Capitalization at IDX (Trillion IDR)

Year	JII	ISSI
2011	1,414.98	1,968.09
2012	1,671.00	2,451.33
2013	1,672.10	2,557.84
2014	1,944.53	2,946.89
2015	1,737.29	2,600.85
2016	2,035.19	3,256.32
2017	2,242.12	3,510.10

Source: Authority Financial Service Report (2017)

Referencing from Table 1, it is confirmed that the development of Islamic stock market capitalization has continually increased. An increase in the number and assets of companies managed by shariah principles and registered in the List of Shariah-Compliant Securities designates that shariah-compliant companies are progressively going public. Going public is among the most crucial issues a company can make. It emboldens companies to get more adscititious funds from investors (Islam et al., 2010; Rust, 2015). The initial phase of going public is to sell the shares in the primary market prior to that in the secondary market (Daljono, 2000). Besides, Carter & Manaster (1990) asserted that companies that decide to go public have to pass the process of offering shares in the primary market known as Initial Public Offering (henceforth IPO). In deciding to pursue an IPO, most companies encountered underpricing which negatively affects their opportunity in connecting to potential investors.

Underpricing is the difference between the issue price and closing price on the first day of listing on the stock market, this condition will lead the decreased the potential investment that can be obtained by issuers (Mayes & Alqahtani, 2015: 190). Similarly, Miller (1997) explained that IPO underpricing might be brought about by the price differences between issue prices. It is based on the average opinion and the aftermarket price set by a few optimistic investors (Gao et al., 2020). Consequently, underpricing will negatively affect the company's performance and investment (Hau & Lai, 2013). Thus, companies should minimize and avoid the risk factors of underpricing. To that end, it is crucial to understand factors affecting underpricing in anticipating its negative impacts. Accordingly, it will not harm either the company or the investor in the future.

Moreover, as expounded earlier, the number of companies registered on the IDX has increased significantly. Interestingly, the IDX statistical report from 2014 to 2017 shows that companies in the service sector increase more significantly compared to that in other sectors as discerned in Table 2. Table 2 depicts IPO's development that is categorized into three sectors, i.e. main sector, manufacturing sector, and service sector. The main sector consists of agriculture and mining with six companies conducting IPOs. Moreover, the manufacturing sector includes basic industries and chemicals, various industries and consumer goods industry with 20 companies conducting IPOs. The service sector further comprises real estate property, infrastructure, utility, transportation, financial and trade, service, and investment with 62 companies conducting IPOs.

Table 2. Initial Public Offering Development based on Company Sectors

No.	Sector	2014	2015	2016	2017	Total	Grand Total
1.	Agriculture	1	-	-	-	1	6
2.	Mining	1	1	-	3	5	
3.	Basic industries and chemicals	2	-	-	4	6	20
4.	Various industries	-	2	2	1	5	
5.	Consumer goods industry	1	1	-	7	9	
6.	Real estate property	1	5	2	8	16	62
7	Infrastructure, utility, and transportation	4	-	2	7	13	
8.	Finance	6	4	2	3	15	
9.	Trade, services, and investment	4	3	6	5	18	

Source: Authority Financial Service Report (2017)

Indonesia, as the most competitive economy in Southeast Asia and the 10th largest economy in terms of purchasing power as well as a member of the G-20 member (World Bank, 2019) is a compelling subject to research on. Underpricing phenomenon harms companies on a microeconomic and macroeconomic activity and underpricing determines the investment (Rust, 2015). An empirical study by Suyatmi and Sujadi (2006) contended that underpricing can be presaged from non-financial and financial variables. Further, Suyatmi and Sujadi (2006) elaborated that the non-financial variable consists of company age, underwriter reputation, auditor reputation, and industry type, while financial variables consist of investment returns and financial leverage.

Islam, Ali, and Ahmad (2010) analyzed the underpricing level in IPO and its determinants in the Bangladesh capital market, the Chittagong Stock Exchange (CSE). The results showed that the type of industry that gives a significant negative impact on underpricing and financial sector companies is dominating the listed companies in CSE, such as a bank, insurance, finance, leasing, and investment companies. This result implies that the financial sector company, which can be categorized as a services company, plays an important role in underpricing. Additionally, Rodoni et al. (2018) stated that investors fixate on a company's industry type when investing in public companies.

Interestingly, a survey carried out by Nurwahida (2019) revealed that the IPO in Shariah-compliant company list in Bursa Malaysia is more underpriced compared to the conventional companies. This indicated that Shariah-compliant companies do not collect funds from investors optimally. Conversely, Mayes and Alqahtani (2015) reported that Shariah-compliant companies have a lower underpricing level compared to non-Shariah compliant. Thus, from these two studies, it is concluded that there are inconsistent erratic findings amongst the studies. Consequently, empirical research in the context of Indonesia is required to minimize the negative impact of the underpricing level and optimize the opportunity from the IPO growth.

Referring to those above-mentioned facts and some empirical results, with the revival of the Islamic stock market in Indonesia, attention has gradually turned to decipher the trend of underpricing. Moreover, Narayan and Phan (2019), in surveying Islamic banking and financial literature, found out that market interaction is the third most popular research topic after banks and equity performance. Thus, the present study sheds some light on the different factors influencing the underpricing of Islamic and non-Islamic shares service companies that become the dominant companies in IDX through the application of non-financial variables (underwriter and auditor reputation) and financial variables (financial leverage and ROA). To ensure the objectives, this study is guided under the research questions: how do financial and non-financial variables affect underpricing level of Islamic and non-Islamic service shares on IPO?

Review of Literature

Underwriter Reputation

Chen et al. (2013) described that underwriter set IPO offer prices based on the issuer's current earning and industrial PE ratios. Ritter (2011) added that underwriters intentionally underpriced the IPOs to minimize the sale risk. Therefore, the underwriter plays an important role in setting the IPO price. An extensive literature review by Kim (2019) examined the determining factors of underpricing in the Korea Composite Stock Price Index (KOSPI) and the Korea Securities Dealers Association Automated Quotation (KOSDAQ) market. Kim discovered that by involving reputable underwriters, the likelihood of delisting newly listed companies was high. Similarly, in the context of the Indonesian stock market, Gusni et al. (2019) ascertained that underwriter reputation negatively affected the underpricing level covering the period from 2013-2017. Rumokoy et al. (2019) explained that reputable underwriters, which reflected into the network centrally, significantly enhance the IPO quality in China stock market. In the Malaysian context, Albada et al. (2019) demonstrated that qualified underwriters significantly decreased the information asymmetry, which, in turn, reduced the underpricing cost during IPOs. On the other hand, Arora & Singh (2019) pointed out that underwriter plays a consequential affirmative responsibility in informing investors' perception in deciding investment activities.

Another research conducted by Zhang and Zhang (2017) analyzed the underwriter reputations' impact on post-IPO price performance in China's A-share market covering the period from January 1, 2000, to March 31, 2015, by applying the difference-in-differences approach. It was discovered that the firms managed by a poorly reputed underwriter tend to have a higher underpricing level and more unsatisfactory performance, in the long run, compared to that managed by reputable the underwriter. It implies that there is a negative relationship between underwriter reputation and firm long-run returns performance. Besides, Islam et al. (2010) affirmed that one of the main factors causing underpricing is asymmetry information among the issuers and investors. Underwriters usually discouraged initial subscribers in primary markets from selling their shares in the secondary market. Consequently, this l leads to excess demand and cause the underpricing.

Additionally, several existing studies carried out by Yadav and Goel (2019); Wang et al. (2019) and Xu, Gong, and Gong (2017) demonstrated that underwriter reputation has a substantial role in affects the underpricing. Similarly, Chen, Shi, and Xu (2013) and Rodoni, Mulazid, and Febriyanti (2018) outlined that underwriter reputation impact on underpricing negatively, while auditor reputation has a positive and significant impact on underpricing. Moreover, Zhang and Zhang (2017) stated that hiring a reputable and certified underwriter is the willingness to avoid higher risk offerings, which indicated the company's efforts to reduce the level of information asymmetry among issuers and public investors. Conforming to the aforementioned theoretical framework, a hypothesis is deduced as follows:

H1: There is a negative significant relationship between underwriter reputation and underpricing level in Islamic and non-Islamic shares on IPO.

Auditor Reputation

A growing body of literature has examined the correlation between auditor reputation and underpricing (Bakers et al., 1988;

Randolph P Beatty, 1989; Tomczyk, 1996). Xu, Gong, and Gong (2017) employed path analysis to investigate how the underwriter reputation as a mediator variable affects the relationship between accruals quality and the underpricing of corporate bonds in China from 2007 to 2013. It is revealed that underwriter reputation has an indirect contribution of approximately 11% to influence the accruals' quality of underpricing. Tessema, Garas, and Tee (2017) also discovered that high-quality accounting standards that are representative of the reputable editor reduces information asymmetry and leads the investors' confidence to do the investment. Moreover, the Islamic institution presented more transparent information compared to the conventional ones. Thus, reputable auditors give positive signals to investors and evade the disadvantage of underpricing.

Previous studies conducted by Rodoni et al. (2018) and Arora & Singh (2019) ascertained that highly reputed auditors encourage firm performances and quality as well as leading to a higher level of investors' confidence, which in turn, will degrade the underpricing level. Thus, we can corroborate that the increase in investors' confidence avails in the decline of information asymmetry and uncertainty regarding IPO. Hence, qualified auditors and underwriters can decrease the underpricing level. Therefore, the following relationship is hypothesized:

H2: There is a negative significant relationship between auditor reputation and underpricing level in Islamic and non-Islamic shares on IPO.

Financial Leverage

Several financial variables are taken into account by the investors prior to the investment. A study conducted by Ghozali and Mansur (2002) and Tessema et al. (2017) deciphered more considerable financial leverage, which is a representative from the percentage of a firm's debt in the capital structure. A high leverage ratio will lead to the disclosure of less information and finally increase the level of underpricing. Contextually, there is a positive and significant relationship between Debt to Equity (DER) towards the underpricing level in Islamic securities in Indonesia stock exchange from 2010-2014, (Rodoni et al., 2018). Thus, this study posits the following hypothesis:

H3: There is a positive significant relationship between financial leverage and underpricing level in Islamic and non-Islamic shaes on IPO.

Return on Asset (ROA)

Return on Asset is one of several financial variables considered by the investor before deciding their investment decision. Numerous studies have used ROA as the determining factors of underpricing such as Chen et al. (2013), Rust (2015), Zhang & Zhang (2017), Budianto et al. (2019), and (Li et al., 2019). A past examination led by Xu et al. (2017) contended that the higher profitability of companies and the more precise earnings mitigate the adverse selection costs by decreasing information asymmetries between the investor and the companies and, as a result, will cut down the underpricing level. Moreover, in the Malaysian stock market, Bakar and Rosbi (2017) also supported that the return is statistically affecting the underpricing level. Additionally, Gao et al. (2020) discover that return on asset is negatively and significantly related to IPO underpricing in the Chinese stock market. Therefore, the following hypothesis is formulated:

H4: There is a negative significant relationship between Return on Asset (ROA) and underpricing level in Islamic and non-Islamic shares on IPO.

Underpricing in Islamic and Non-Islamic Shares

Several existing studies were undertaken by Jaballah et al. (2018), Bakar & Rosbi (2017), Tajuddin et al. (2019), Nurwahida (2019), and Kamaludin & Zakaria (2019). They attempted to examine the influences of Shariah-compliant status disclosure on IPO towards underpricing level. The results suggested that Shariah-compliant status had affected the underpricing level. In detail, Boulanouar & Alqahtani (2016) explored the influence of Sharia compliance status to mitigate the information asymmetry and its effect on the level of underpricing in 33 insurance companies in the Saudi Arabian market. This study showed no significant effect of shariah compliance in decreasing the insurance companies' underpricing level. In addition, Mayes and Alqahtani (2015) investigated the correlation between Shariah compliance and the initial returns of 72 companies in Saudi Arabia. They found out that Shariah compliance helped decrease the uncertainty and negative consequent of information asymmetry. Furthermore, the finding suggested that the underpricing level in IPOs would decrease in line with the establishment of shariah compliance status.

Based on these previous studies, the authors conclude that several financial and non-financial variables such as underwriter reputation, auditor reputation, financial leverage and ROA were significantly affecting the underpricing level in various stock market globally. Another interesting fact is some researchers ascertained that Sharia-compliant status had been proved to help to trigger down the underpricing level on Islamic stock shares. However, there is still a lack of study analyzing the differences of determinants of underpricing level on Islamic and non-Islamic shares. Thus, this study aims to address this limitation by comparing the Islamic stock share. This study also tries to distinguish the factors that affect underpricing levels of those types of stock shares, especially Islamic and non-Islamic shares listed on IDX.

Hypothesis Model

The purpose of this study is to examine the factors that influence the underpricing level of Islamic and non-Islamic shares in service companies during an initial public offering (IPO) in the Indonesia Stock Exchange (IDX). It also aims at investigating the distinctions between those companies using underwriter reputation, auditor reputation, financial leverage, and ROA as independent variables. In order to analyze the relationship between the variables, a model has been developed (see figure 1).

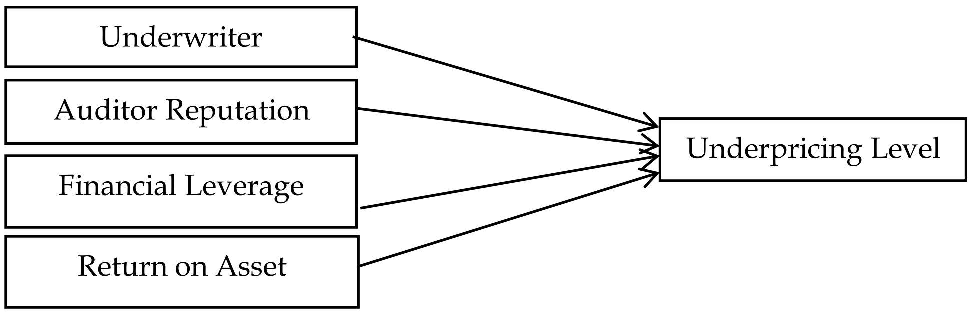


Figure 1. Schematic Diagram of the Study

Research Method

Sample Selection and Data Sources

This study utilized annual data for the period 2011-2017 from IDX and companies' official website comprising of 22 stock samples from 44 IPOs in Islamic shares and 21 underpricing samples from 32 IPOs in non-Islamic shares. We compiled dataset covering the period from 2011-2017 to avoid the instability data of companies' performances because of several global financial crises. In addition, subprime-mortgage in 2008, the Greek crisis in 2010, and depreciation of IDR towards USD in 2018 (Bank Indonesia, 2018) were significantly affected the financial condition of companies around the world, including Indonesia.

The sample selection method used in this study is purposive sampling with several particular criteria, such as: (1) companies are conducting an IPO during the research period; (2) companies that experience underpricing at the time of initial public offering or IPO; (3) companies that did not experience overpricing at the time of the IPO; and (4) companies that publish complete data and have data used in research. The data were collected from the Indonesia Stock Exchange FactBook and the company official website in the form of an annual financial report for the period 2011-2017.

Research Model

The present study adopts multiple linear regression to assess the underpricing factors of IPOs in the Indonesia Stock Exchange (IDX). Statistical Package for Social Science (SPSS) version 16 was employed for data analysis. The mathematics model of this study is respectively presented as follows:

$$\mathrm{UNDP} = \alpha + \lambda_1 \mathrm{UR}_1 + \lambda_2 \mathrm{AR}_2 + \lambda_3 \mathrm{FL}_3 + \lambda_4 \mathrm{ROA}_4 + e$$

Where UNDP is the underpricing level, UR is underwriter reputation, AR is auditor reputation, FL is financial leverage, ROA is the return on asset and e is the error term.

Independent Samples t-Test

Independent samples t-test is used to compare two groups of which means are not dependent on one another (Gerald, 2018). Before heterogeneity test (t-test) was performed, the homogeneity variance test and the F test (Levene's Test) were carried out. If the variance of Islamic and non-Islamic service shares are the same, the t-test using Equal Variance is assumed (assumed to be the same variant), whereas if the variances are different, then the t-test utilizing Equal Variance is not Assumed (assumed different variants). The testing Criteria are based on the significance value as follows. If P-value < 0.05, it indicates that there is a significant difference between Islamic and non-Islamic service shares. On the other hand, if P-value > 0.05, it means that there is no significant difference between Islamic and non-Islamic shares.

Variable Measurement

In order to determine the factors caussing the underpricing of IPOs in IDX (which is the dependent variable), underpricing formula and calculation is as follows:

$$IR = \frac{P_{ti} - P_{to}}{P_{ti}}\ x\ 100\%$$

There are four independent variables in this study. The selection of the variables is consistent with that in the previous studies in this area, which were conducted by Boulanouar & Alqahtani (2016); Chen et al. (2013); Du et al. (2018); Gusni et al. (2019); Islam et al. (2010): Kim (2019); Lyandres et al. (2018); Mayes & Alqahtani (2015); Nurwahida (2019); Rodoni et al. (2018); Rust (2015); Tessema et al. (2017); Widarjo et al. (2017); Xu et al. (2017); and Zhang & Zhang (2017). The independent variables are underwriter reputation (UR), auditor reputation (AR), financial leverage (FL), and return on asset (ROA).

The underwriter reputation (UR) is a dummy variable equal to one if the underwriter is included in 50 most active IDX members in total trading frequency, or zero for otherwise. Similarly, auditor reputation (AR) is a dummy variable equal to one if the auditor is reputable which reflected by having a partnership with the best four auditors in the world or zero otherwise. The best four auditors are namely Pricewaterhouse Coopers (PwC), Deloitte Touche Tohmatsu (Deloitte), Ernst & Young (EY), and Kinsfield, Peat, Marwick, dan Goerdeller (KPMG).

Financial leverage (FL) is included as a proxy for companies used funds that cause companies to bear burden in the form of the interest rate. This variable is measured through the Debt to Equity (DER) ratio. DER is calculated by taking the total debt obligations and dividing it by Equity. DER ratio formula and calculation are as follows:

$$DER = \frac{Total\ Liabilities}{Total\ Shareholders'\ Equity}$$

Moreover, return on Asset (ROA) is a ratio that reflects the company's abilities in gaining profit which is measured by net income and divided by total assets. ROA ratio is calculated by the formula:

$$ROA = \frac{Net\ Income}{Average\ Total\ Assets}$$

Results

Descriptive Statistics

The descriptive statistics presented in table 3 depicts that the average underpricing level for Islamic service shares is 21.66, while non-Islamic service shares is 16.56. This study uncovers that generally, both of these companies have cheaper price estimations compared to selling price in the secondary market. The results indicate that the Islamic companies estimate lower initial shares price compared to non-Islamic companies. As described in Table 3, the average value of Islamic stock financial leverage is -0.37 in and 2.47 for non-Islamic stocks. This current study demonstrated that Islamic companies had a lower total debt to total assets compared to non-shariah companies. From ROA's average values, it is concluded that Islamic companies are more profitable compared to non-Islamic companies.

Table 3. Descriptive Statistics of Islamic and Non-Islamic Shares

	N		Mean	
Variabel	Islamic	Non- Islamic	Islamic	Non- Islamic
FL	22	21	-0.3764	2.4776
ROA	22	21	2.7495	1.7910
Underpricing	22	21	21.6618	16.5614

Source: data analysis

Regression Result

In light of the data that appears in Table 4, it is inferred that Islamic services have better performance compared to conventional counterparts since they are able to earn much more funds than non-Islamic services companies. Similarly, Mayes and Alqahtani (2015) also reveal that with regards to the Saudi Arabia stock market, Shariah-compliant companies show significantly higher underpricing compared to non-Shariah compliant. In contrast, several studies conducted by Ruzita Abdul-Rahim & Nor Azizan Che-Embi (2013), Bakar & Uzaki (2013), and Nurwahida (2019) showed that in the context of Malaysian stock market, Shariah companies are found to be lower underpriced than the conventional ones.

Table 4. Multiple Linear Regression Result

Variable	Coefficient		Significance	
	Islamic	Non- Islamic	Islamic	Non- Islamic
(Constant)	22.553	28.979	0.000	0.012
UR	-20.356	-29.810	0.031*	0.005*
AR	-20.158	-36.601	0.013*	0.004*
FL	-0.369	2.908	0.835	0.267
ROA	-0.731	0.250	0.195	0.896

*Significance at 5%
Source: data analysis

From this study, it can be attested that the significance level of the underwriter for Islamic and non-Islamic companies is lower than α 5% (0.031 and 0.005 < 0.05) with the negative coefficient value. These results indicate that H1 is accepted. This shows that the underwriter has a significant negative impact on the underpricing level in Islamic and non-Islamic shares companies. Thus, hiring a reputable underwriter leads to a decreasing level of underpricing. The reputable underwriters can reduce the underpricing level since they can ensure to give the best quality. It is confirmed that if the Islamic services companies hired reputable underwriter, other variables were assumed ceteris paribus. It reduces the underpricing level from 22.553 to 2.197 (22.553-20.356). While the underpricing level is minimized from 28.979 to -0.831 (28.979-29.810) in the non-Islamic services companies after hiring reputable underwriters. These results imply that underwriter reputation affects more significantly on non-Islamic service companies' underpricing level compared to the Islamic service companies.

This study ascertains that the auditor's reputation significantly contributes to reducing the underpricing level, both in Islamic and non-Islamic services' shares. It is represented by the level of significances which are lower than α 5% (0.013 and 0.004 < 0.05).

This suggests that H2 is accepted. This study evidences that the auditors whose partnership with the big four accounting firms in the world will lead to a decreasing underpricing level. Besides, Islamic service shares have a weaker correlation with reputable auditors compared to non-Islamic service shares. These results can be seen from the coefficient value of auditor reputation in Islamic service companies of -20.158. This implies Islamic service companies hiring reputable underwriters will degrade its underpricing level to 2.359 (22.553-20.158). Whereas in non-Islamic service companies, the coefficient value for auditor reputation is -36.601, illustrating that non-Islamic service companies hiring reputable underwriter declines its underpricing level to -7.622 (28.979-36.601). To conclude, auditor reputation has a more significant impact in non-Islamic service companies' underpricing level compared to in Islamic services companies.

Furthermore, this study also discovers that FL does not have a significant relation with the underpricing level, either in Islamic nor non-Islamic companies. Hence, H3 is rejected. This is reflected by the higher level of significance (0.835 and 0.267) and (0.195 and 0.896) compared to α 5% (0.05). These results are supported by existing literature reported by Irfani (2014) that financial leverage, which is measured by DER, does not affect the companies' underpricing level in IDX. Moreover, this study also portrays that there is no significant relation between ROA and the underpricing level. Therefore, H4 is rejected. Previous studies carried out by Rani & Kaushik (2015) and Rust (2015) also revealed similar results. In addition, Budianto et al. (2019) also explained that there is no significant relationship between the quality of accounting information represented by ROA and the underpricing level in the Indonesian stock market. The lack of the investors' trust in companies' financial reports is considered as the reason for this phenomenon. Li et al. (2019) demonstrated that the higher investors' trust in companies, the lower the underpricing level of the companies.

Independent Sample t-Test Result

Table 5 depicts the result of independent sample t-test to examine the difference between Islamic and non-Islamic shares on IPO. As presented in table 5, the probability value (significance) of underwriter reputation, auditor reputation, and financial leverage are 0.411, 0.613, and 0.622, respectively. These value are higher than α 5%, thus Ho is accepted. It implies that both variants (Islamic and non-Islamic service shares) are equal. On the other hand, the probability value (significance) of ROA is 0.029, which is lower than α 5%, therefore Ho is rejected. Hence, the result indicates that both variants (Islamic and non-Islamic service shares) are not equal.

Moreover, as portrayed in table 5, we can conclude that there is no significant difference in the impact of the underwriter reputation, auditor reputation, and ROA on Islamic and non-Islamic service shares. These findings reflected by the value of the Sig. (2-tailed) are higher than α 5% (0.675 > 0.05), (0.801 > 0.05), and (0.805 > 0.05). Furthermore, this study discovered that there is a different and significant impact of financial leverage on Islamic and non-Islamic service shares. This result is reflected by the Sig. (2-tailed) value which is lower than α 5% (0.021 < 0.05). In addition, the mean difference for financial leverage is -2.85398 which means financial leverage for Islamic service shares is better than conventional counterpart.

Table 5. Independent Sample t-test Result

		Levene's Test for Equality of Variances		t-test for Equality of Means				
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference
Underwriter reputation	Equal Variances Assumed	0.689	0.411	-0.422	41	0.675	-0.06277	0.14858
	Equal Variances Not Assumed			-0.422	40.667	0.675	-0.06277	0.14873
Auditor Reputation	Equal Variances Assumed	0.26	0.613	0.254	41	0.801	0.03463	0.13621
	Equal Variances Not Assumed			0.255	40.999	0.800	0.03463	0.13607
Financial Leverage	Equal Variances Assumed	0.246	0.622	-2.393	41	0.021	-2.85398	1.19285
	Equal Variances Not Assumed			-2.435	27.623	0.022	-2.85398	1.17227
Return on Assets	Equal Variances Assumed	5.11	0.029	0.249	41	0.805	0.95859	3.85694
	Equal Variances Not Assumed			0.254	21.805	0.802	0.95859	3.7694

Source: data analysis

Discussion

First, this study reveals that underwriter reputation is negatively affecting the underpricing level. This is supported by existing studies carried out by Beatty and Ritter (1986), Carter and Manaster, (1990), Daljono (2000), Kristiantari (2013), Chen et al.

(2013), Zhang & Zhang (2017), Tutuncu (2020) and Rodoni et al. (2018) that underwriter reputation plays an essential role in decreasing the underpricing level. In detail, Albada et al. (2019) also proved that the underwriter reputation could lead to a lower level of information asymmetry and finally reduce the underpricing cost. Additionally, Chen et al. (2013) discover that underwriter reputation plays a significant role in helping the improvement of companies' performances in post-IPO.

Specifically, in the context of the Indonesian stock market, Gusni et al. (2019) also proved that underwriter reputation negatively correlated to underpricing. Additionally, Kim (2019) who studied in the Korean stock market described that newly listed companies hiring reputable underwriters will significantly decrease their delisting risk. It is confirmed that there is a negative relationship between underwriter reputation and underpricing in the Indonesian stock market. This implies that the higher quality of the underwriter avoids the underpricing cost. Interestingly, hiring reputable underwriters, non-Islamic service companies are more underpriced compared to Islamic service companies.

Second, this study also ascertained that auditor reputation negatively and significantly affects the underpricing level. This supports the previous studies conducted by Hapsari (2012) and Lestari et al. (2015) stating that auditor reputation reduces the level of underpricing. Similarly, Du et al. (2018) also found out that reputable auditor has a significant positive impact on pre-IPO earning management in China stock market, especially on the firms which have a less reputable auditor. To add, in the context of the Malaysian stock market, Bakar and Rosbi (2017) and Tajuddin et al. (2019) demonstrated that Shariah-compliant status has a positive significant influence the IPO oversubscription. It is also confirmed that non-Islamic service companies are more underpriced when engaging with reputable auditors compared to Islamic service companies.

Third, this study summarizes that, in general, non-Islamic service companies are more underpriced compared to Islamic service companies. Hence, this illustrates that Islamic services companies have better performance in gaining the funds from the activities of going public compared to their conventional counterparts. Underwriter and auditor reputation affect the decline of the underpricing level on non-Islamic companies.

In Islamic companies, an investor tends to neglects the auditor's reputation compared to the conventional counterparts since Shariah principles avoids the underpricing level. This is in line with the fact that Muslim population dominates Indonesia, thus, Shariah compliance becomes their priority. Several existing studies by Tessema et al. (2017) emphasized that the implementation of the Islamic Financial Services Board Standard helps the companies in GCC countries in increasing the financial transparency for the investor, which reduces the information asymmetry and decreases the underpricing cost. Mayes and Alqahtani (2015) also proved that Shariah-compliant significantly helps reduce the uncertainty and consequences of the limited information during IPO, which will influence the decreasing of the underpricing level in Saudi Arabian stock market. Briefly, the result from this current research indicates that, shariah-compliant companies should be more transparent compared to non-shariah companies in avoiding asymmetry information (*gharar*).

Moreover, according to the independent sample t-test result, we can confirm that there were no significant differences in determining factors from Islamic and non-Islamic service shares, except for the financial leverage variable. This result implies that financial leverage in Islamic service shares is better than in non-Islamic shares. This might be caused by the financial performance of Islamic shares follows and is in-line with the Sharia-compliant. The previous study by Mayes and Alqahtani (2015) has proved that Sharia compliance has a significant impact on decreasing the underpricing level on the IPO, which in turn leads to the increase of the company's financial performance.

In a broader view, the results from this study shed some light on the comprehensive perspective of the factors that affect the underpricing level. They are essential for minimizing the underpricing level. For the investors, this study is expected to be a matter of consideration in investing funds and in obtaining the optimal return, especially for the Islamic services companies. On the other hand, this study would benefit the policy-makers to plan and strategize appropriate policies to reduce the asymmetry information, which usually caused the underpricing as well as create a conducive environment for investment activities. The limitation of this study is the lack of a variable that represents Islamic-compliant status for Islamic shares companies, which can be measured by Islamic-compliant status disclosure in IPO prospectus as a proxy. The precedent studies carried out by Boulanouar and Alqahtani (2016); Mayes and Alqahtani (2015); Tajuddin et al. (2019) adopted Shariah-compliant status variable in predicting the underpricing level in Islamic shares companies. In detail, most recent research conducted by Nurwahida (2019) applied Shariah-compliant disclosure as a proxy which represented as a dummy variable equal to one if the companies comply with Shariah or zero for otherwise. The companies which are listed on the Shariah index are obtained from Indonesia Shariah Stock Index (ISSI) or other Shariah Index to distinguish between compliant and non-compliant firms. Therefore, continuous efforts need to be undertaken to deepen and widen this topic.

Conclusion

The present study investigates the factors affecting underpricing of Islamic and non-Islamic shares in the Indonesia Stock Exchange. The results of data analysis reveal that underwriter and auditor reputation has a significant negative relationship with the company's underpricing level. The independent samples t-test result indicates that Islamic companies have better financial performance, which is reflected by the financial leverage compared to the conventional counterparts. Based on the results, this study suggests that both Islamic and non-Islamic services companies should hire a reputable underwriter and auditor. The higher reputation leads to the increasing company's opportunity to gain the potential investors. Moreover, this study implies that shariah-compliant companies could anticipate the underpricing level more quickly since the Shariah principles are in line with the decreasing the level of underpricing.

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