Board Diversity and Underpricing of Initial Public Offering (IPO) Companies: A Case Study on the Indonesia Stock Exchange

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Abstract: In the initial public offering (IPO) process, a phenomenon often occurs where the initial price is lower than the market price on the first day of trading, often referred to as underpricing. Many factors influence the occurrence of underpricing, but this study aims to examine the influence of board diversity on underpricing. The board diversity variables that are expected to influence underpricing are board independence (BIND), board of commissioners (BCO), board size (BSZ), women on board (WOB), related board management (RBM), and board age (AGE). The population in this study were companies conducting initial public offerings between 2010 and 2024, with a sample of 437 companies. Hypothesis testing used panel data regression. Based on the model test results, the best panel data regression model was the fixed effect model. The results showed that the hypothesis was accepted: board independence (BIND), board of commissioners (BCOM), and women on board (WOB), while the variables board size, related board members (RMB), and board age did not affect underpricing.

Keywords: underpricing, board size, komite dewan, komite audit, women on board;uisa dewan, top ten shareholding

Introduction

The capital market is a crucial institution in supporting a country's economic growth, as it provides funding for companies (Samarakoon & Kadapakkam, 2014). One way companies obtain funding from the capital market is through an Initial Public Offering (IPO), the process of listing shares on the stock exchange for the first time (Park & Byun, 2022; Tjaputra et al., 2023). However, IPO underpricing often occurs, where the share price during the initial offering is lower than the first-day trading price on the secondary market (Steven et al., 2023; Wang et al., 2023). This underpricing can benefit early investors but is detrimental to the company because the funds raised fall short of its maximum potential (Afza et al., 2013; Kurniawati & Sutrisno, 2019; Teti & Montefusco, 2022).
A contributing factor to underpricing is corporate governance. Good governance is believed to reduce information asymmetry between management and investors, thereby minimizing the risk of underpricing (Setiawan et al., 2021). Governance factors that influence this include board size, which is the number of board members serving on the board of directors and the board of commissioners. Board size can impact the effectiveness of operations and oversight within a company. Larger boards tend to have more expertise and perspectives, as they can draw from diverse business expertise and experience. However, a large board can also make coordination more complex (Jensen, 1993). Previous research has shown that larger board sizes can reduce underpricing by increasing information transparency (Bastanta Pelawi & Yusviento Pelawi, 2023). Teti & Montefusco (2022) and Park & Byun (2022) found a significant and negative effect on underpricing, while Setiawan et al., 2021 found no effect of board size on underpricing.
The existence of committees within the board of directors, such as the nomination and remuneration committee, can improve the effectiveness of corporate oversight and governance. Strong committees can facilitate more transparent decision-making, thereby reducing information asymmetry and the risk of underpricing (Hasan et al., 2017). Findings (Borlea et al., 2017) indicate a negative influence between board committees and company performance, which can lead to declining performance and underpricing. Meanwhile, a higher proportion of independent board members, indicating a board without ties to owners, plays a crucial role in overseeing management's actions in the best interests of shareholders. A greater presence of independent board members is often associated with increased transparency and reduced information asymmetry, potentially reducing underpricing (Wijoyo et al., 2024).

Female board members represent gender diversity on boards, which is expected to improve the quality of decisions and oversight within a company. Female board members tend to be more cautious in taking risks and focus more on information transparency (Sutrisno & Fella, 2020). Therefore, the involvement of women on boards can contribute to reducing IPO underpricing (Kurniawan et al., 2013).
The audit committee plays a role in oversight and ensuring the company's compliance with laws and regulations. The audit committee also assists the Board of Commissioners in carrying out its duties. An effective audit

committee plays a role in ensuring the quality of financial reports and the transparency of the company's financial information. The existence of an independent and competent audit committee can reduce financial report manipulation and increase investor confidence, ultimately reducing underpricing (Setiawan et al., 2021).

The age of board members reflects experience, meaning that the older a board member, the more experienced they are. Therefore, the age of board members can influence the quality of decision-making and oversight within a company. More senior board members tend to have more experience and wisdom in dealing with business challenges, including the IPO process (Katsiampa et al., 2024). However, other research suggests that older boards may be more conservative in corporate strategy, which can affect underpricing (Tran et al., 2021). Therefore, it is important to further examine how board age relates to the phenomenon of IPO underpricing.

Corporate ownership structure, particularly ownership concentration in the hands of the largest shareholder, plays a crucial role in corporate governance mechanisms. Concentrated ownership can mitigate conflicts of interest between majority and minority shareholders, but it can also increase the risk of decision-making favoring the interests of certain groups (Shleifer & Vishny, 1997). Several studies have shown that concentrated ownership can increase investor confidence in company valuations and reduce IPO underpricing (Mohammed et al., 2017). The involvement of family members in the board structure also impacts corporate governance. Family-owned companies, or those with interconnected board members, often face challenges in maintaining transparency and accountability (Mohammed et al., 2017). On the one hand, family ties can enhance trust and coordination in decision-making, but on the other hand, they can exacerbate information asymmetry and increase the risk of underpricing (Setia-atmaja & Chander, 2021).

Literature Review

IPO Underpricing

Arora and Singh (2020) argue that underpricing occurs due to information asymmetry in Initial Public Offerings (IPOs) between informed and uninformed investors. This information asymmetry biases investors towards both positive and negative issues. IPO companies offer discounts to attract investors. Poor selection challenges the information asymmetry between informed and uninformed investors, as well as widespread oversubscription of IPOs in the capital market. Equity retention by original shareholders is considered a positive signal to investors, reflecting the company's book value to potential investors. Another signal used in IPOs is the reputation of the external auditor. Underpricing is the difference between the closing price on the first trading day in the capital market and the offering price (Gupta, Singh & Yadav, 2019). In their research, Arora and Singh (2020) used the Raw Return (RR) method to measure underpricing.

Companies that conduct IPO activities in the capital market gain benefits from going public. The company obtains funds without being exposed to the risks that can incur corporate debt, the company implements accountability and transparency and improves its reputation, increasing visibility in the market (Caselli, 2010). IPOs make companies bear additional costs, including professional fees related to the capital market, the obligation to comply with capital market regulations, loss of control over the company, and the company's performance declines, underpricing phenomena occur (Damodaran, 2010). The securities trading market is divided into two markets: the primary market and the secondary market. The primary market is a market where companies that need funds sell or offer securities, whether in the form of shares, bonds or other securities, directly to prospective investors. In the primary market, the price of securities is determined in advance. The secondary market is a market where securities trading transactions occur between investors after the securities sold or offered in the Primary Market are listed on a particular stock exchange. In this market, securities are traded from one investor to another. The price formed in the secondary market is highly dependent on the amount of demand and supply of a security between sellers and buyers of securities (Indonesia Stock Exchange, 2017). The public offering process involves four stages that a company must go through. First, the preparation stage. During the preparation stage, the company must hold a General Meeting of Shareholders (GMS), appoint underwriters and capital market support professionals, and third parties to manage company data. Second, the registration stage. During the registration stage, the company must present a brief prospectus and supporting documents. Third, the offering stage. During the offering stage, the company must conduct an initial public offering, the most crucial stage in raising capital from the public. Fourth, the listing stage. During the listing stage, the company must choose a listing board on the Indonesia Stock Exchange, either through the main board or the development board (Indonesia Stock Exchange, 2017).

Board Size and Underpricing

Researchers Ammari et al. (2014) stated that board size negatively impacts company performance. This leads to

a decline in company performance and the phenomenon of underpricing. Similarly, researchers Ahmed Haji and Mubaraq (2015) found that board size negatively impacts company performance, resulting in a decline in company performance and the phenomenon of underpricing. Researcher Hearn (2011) stated that there is a negative effect between board size and company performance. This leads to a decline in company performance and the phenomenon of underpricing.
H_1: Board size has a negative effect on underpricing.

Board Committees and Underpricing
Board committees negatively influence company performance. This leads to declining company performance and underpricing (Arora and Singh, 2020). Furthermore, findings by researchers Borlea et al. (2017) indicate a negative influence between board committees and company performance. This leads to declining company performance and underpricing. A study by Hasnan et al. (2020) shows a negative influence between board committees and company performance. This leads to declining company performance and underpricing. Researchers Victor and Edwin (2019) found a negative influence between board committees and company performance. This leads to declining company performance and underpricing.
H_2: Board committees negatively influence underpricing

Board Independence and Underpricing
Findings by Iraya et al. (2015) indicate a negative influence between board independence and company performance. This leads to declining company performance and underpricing. This research aligns with the findings of Adusei (2011), who found a negative effect between board independence and company performance. This resulted in declining company performance and underpricing. Similarly, research by Darko et al. (2016) showed a negative effect between board independence and company performance. This resulted in declining company performance and underpricing.
H_3: Board independence negatively impacts underpricing.

Women on the Board and Underpricing
Researchers Moreno-Gomez and Calleja-Blanco (2017) demonstrated a negative effect between women on the board and company performance. This resulted in declining company performance and underpricing. Furthermore, Darmadi (2013) found a negative effect between women on the board and company performance. This resulted in declining company performance and underpricing. This research aligns with Reutzel and Belsito (2014), who explained a negative effect between women on the board and company performance. This resulted in declining company performance and underpricing.
H_4: Women on the board negatively impact underpricing

Age of the Board and Underpricing
Researchers Hafsi and Turgut (2012) found a negative effect between board age and company performance. This impacted company performance and underpricing. Research showing a negative effect between board age and company performance was found by Boadi and Osarfo (2019), impacting company performance and underpricing. Similarly, Kagzi and Guha (2018) found a negative effect between board age and company performance. This impacted company performance and underpricing. Researchers Thorsell and Isaksson (2014) found a negative effect between board age and company performance. This impacted company performance and underpricing. Handa and Singh (2017) found a negative effect between board age and company performance. This impacted company performance and underpricing.
H_5: Board age has a negative effect on underpricing

Related Board Members and Underpricing
Researchers Tonggoano and Christiawan (2017) found a negative effect between related board members and company performance. This leads to declining company performance and underpricing. The negative findings in Khan and Nouman (2017) indicate a negative effect between related board members and company performance. This leads to declining company performance and underpricing. This study aligns with Azim et al. (2018) who showed a negative effect between related board members and company performance. This leads to declining company performance and underpricing.
H_6: Related board members have a negative effect on underpricing.

Method

Population and Sample

The population in this study consists of 437 companies conducting Initial Public Offerings (IPOs) on the Indonesia Stock Exchange (IDX) between 2010 and 2024. The sampling method used in this study was purposive sampling, a non-probability sampling technique in which the sample is selected based on specific criteria relevant to the research objectives and problem formulation. The sample selection criteria are as follows:

- Companies selected for the sample must be officially listed on the Indonesia Stock Exchange (IDX).
- Companies must have complete information and have issued an IPO prospectus during the 2010–2024 period.
- Companies must use the Indonesian Rupiah (IDR) as their reporting currency.
- Companies must have complete data related to the variables used in this study, particularly data obtained from the IPO prospectus.
- Companies must have obtained an effective registration statement from the Financial Services Authority (OJK) as a legal requirement for conducting an IPO.

Research Variables

This study has one dependent variable, underpricing, and six independent variables: board size (BSZ), board committees (BOC), board independence (BIND), Women on board (WOB), board age (AGE), and related board members (RBM). The following is a definition of each measurement variable:

Underpricing

Underpricing is a stock price set at the IPO (initial price) that is lower than the price established in the secondary market on the first trading day (Steven et al., 2023; Wang et al., 2023). This can be formulated as follows:

$$UP = \frac{Listing\ price\ fiert\ day - Offering\ price}{Offering\ price}\ x\ 100\%$$

Board Size (BSZ)

Board Size (BSZ) is the total number of commissioners and directors on a company's board. Board size influences the characteristics of a company's board composition. To calculate board size, use the following formula (Joh et al., 2020):

$$\text{BSZ} = \text{Number of member of the Board Directors and Commissioners}\,.$$

Board Committees (BOC)

Board committees are established and report to the board of commissioners. These include the risk monitoring committee, the remuneration and nomination committee, the corporate governance policy committee, and other committees. The list of board committees is as follows (Putra, 2021):

$$\text{BOC} = \text{Number of Committee Members Assisting the Company's Board Members}$$

Independent Board (BIND)

An Independent Board consists of board members who are not affiliated with the company and come from outside the company. This is measured by calculating the following (Gusni et al., 2019; Purwanto & Cahyaningrum, 2019):

$$B\text{IND} = \frac{\text{Number of Independend Board Member}}{\text{Number of Company Boar Member}}$$

Women on Board (WoB)

Women on Board (WoB) represents women's role within a company to improve company performance (Sutrisno & Mohamad, 2019). In this case, researchers measured the presence of women as board members as follows:

$$WOB = Dummy\ variable\text{: } 1\ if\ there\ is, and\ 0\ otherwise.$$

Age of Board (AGE)

Age of board ditandai dengan kehadiran *directors experience* yang menjabat di dewan. Anggota dewan yang berpengalaman dapat menurunkan risiko yang diterima oleh investor untuk meningkatkan keagenan. Anggota dewan mengurangi porsi kepemilikan pada manajemen perusahaan serta peningkatan dalam proporsi kepemilikan saham minoritas. Untuk mengukur *Age of board* sebagai berikut (Arioglu, 2021), (Katsiampa et al., 2024):

AGE = Average Age of All Company Board Members

Related Board Members (RBM)
Related board members describe board members who are interconnected in an IPO company, characterized by family ownership and/or family firm or family membership. Related board members have a psychological connection to work to improve organizational performance. The calculation of related board members is as follows (Arora & Singh, 2020):

RBM = Number of Company Board Members who are Tied to each other

Data Analysis
This quantitative research aims to determine the effect of corporate governance on the underpricing phenomenon. To test the hypothesis, we will use panel data regression analysis. The regression equation is as follows:

$$UP = \alpha + \beta_1 BSz + \beta_2 BoC + \beta_3 BoI + \beta_4 AoC + \beta_5 WoB + \beta_6 AoB + \beta_7 RBM + \beta_8 TTS + \varepsilon$$

Results
Descriptive Statistics
To provide an overview of the research data, the following are the minimum, maximum, mean, and standard deviation for each variable. Table 2 shows the descriptive statistics for each variable.

Table 1: Descriptive Statistics

	Maximum	Minimum	Mean	Std. Dev.
UP	82.000	(55.556)	35.552	30.530
BSZ	13.000	4.000	6.248	2.043
BCO	10.000	3.000	5.628	1.414
BIND	0.500	0.091	0.223	0.079
WOB	0.750	0.077	0.279	0.130
AGE	66.833	33.000	49.315	6.468
RBM	11.000	1.000	3.029	1.590
Obs	137.000	137.000	137.000	137.000

Source: Data processed

Based on these results, the Underpricing (UP) variable has an average value of 0.1509 with a maximum value of 1.97 and a minimum of -0.74, indicating variations in the level of underpricing in companies conducting IPOs. The Board Size (BSZ) variable has an average of 6.24 members with a minimum value of 4 and a maximum of 13, meaning that companies generally have around six board members. Meanwhile, the Board of Commissioners (BCO) has an average of 5.63 members, with a minimum value of 3 and a maximum of 10, reflecting the relatively large size of the board of commissioners in some companies. Furthermore, Board Independence (BIND) has an average value of 0.223, with a range of 0.09 to 0.50, indicating that approximately 22% of board members are independent commissioners. The Women on Board (WOB) variable has an average of 0.279, with a minimum value of 0.07 and a maximum of 0.75, indicating that approximately 27% of board members are women. For the Age of Board (AA) variable, the average value was 49.37 years, with a minimum value of 33 and a maximum value of 66.83, indicating that the average age of board members is in the middle-aged range. The Related Board Members (RBM) variable had an average of 3.07 members, with a range of 1 to 11.

Hypothesis Test Results
After model testing, it was determined that the best model was the Fixed Effects Model. The table below shows the results of hypothesis testing using the Common Effects Model, Fixed Effects Modal Model, and Random Effects Model for comparison.

Table 2: Hypothesis Result with Common Effect, Fixed Effect and Random Effect

Variable	Common Effect		Fixed Effect		RamdoM Effect	
	Coeff.	Prob.	Coeff.	Prob.	Coeff.	Prob.
BIND	-7.002061	0.0904	-7.754749	0.0695	-7.632848	0.0661
BCO	-5.016674	0.0091	-4.814029	0.0142	-4.943725	0.0102
BSZ	2.623779	0.3245	2.008314	0.4564	2.330632	0.3789
WOB	-35.20186	0.0946	-42.51736	0.0421	-39.45637	0.0568
RBM	1.705188	0.3476	1.754928	0.343	1.837544	0.3098
AGE	-0.494634	0.2321	-0.456039	0.2716	-0.451985	0.2688

Source: Data processed

Discussion

Based on the data analysis, board size did not significantly influence underpricing. This study aligns with research by Arora and Singh (2020), which found no significant effect between board size and underpricing. The balance of board size within a company does not significantly impact company performance and does not lead to stock price underpricing (Darko et al., 2016). Other studies, such as Khan et al. (2017), found no effect between board size and company performance. This does not contribute to stock price underpricing. Communication and coordination between board members within a company do not significantly impact company performance and do not contribute to stock price underpricing (Arora and Singh, 2020). Board members make significant decisions, make ideas, and contribute significantly to the company, but board size has no significant effect on company performance and does not significantly influence stock price underpricing (Yasser et al., 2015).

Based on the data analysis of Board Committees, there is no significant effect between board committees and underpricing. The results of this study align with those of Widagdo and Chariri (2014), which found no significant influence between board committees on company performance. This does not impact the phenomenon of underpricing of company shares. Adestian (2015) stated that there is no significant influence between board committees on company performance. This is because board committees tasked with auditing, risk monitoring, remuneration and nomination, corporate governance policies, and other matters do not affect company performance. This, in turn, does not impact the underpricing of company shares.

Based on the analysis of Board Independence data, there was no significant influence between board independence and underpricing. This finding contradicts the research conducted by Arora and Singh (2020), which found a positive influence between board independence and underpricing. A similar study by Nugroho and Eko (2011) found that board independence had no effect on company performance. Therefore, it does not affect the level of underpricing of company shares. Other research, such as that of Uwuigbe et al. (2018), found no relationship between board independence and company performance. Board independence's role is to influence and control managers. This does not affect the quality of the company's performance or the underpricing of its shares. Board independence plays a role in managerial decisions, encompassing knowledge, expertise, objectivity, and skills. However, this role does not impact company performance or the underpricing of the company's stock price (Borlea et al., 2017). The duties of an independent board within a company include overseeing company operations, holding managers accountable, protecting company assets, and effectively supporting shareholder interests. This independent board's duties do not impact underpricing or company performance (Garcia-Ramos and Garcia-Olalla, 2011).

Based on the results of the data analysis conducted on women's boards, women's boards negatively impact underpricing. This study aligns with research conducted by Arora and Singh (2020), which found that women's boards influence underpricing. Other studies, such as Moreno-Gomez and Calleja-Blanco (2017), found a negative and significant influence of women's boards on company performance. This decline in company performance is due to the ineffectiveness of women directors within the company and contributes to the underpricing of the company's shares. Darmadi (2013) stated that there is a negative and significant influence between women on boards and company performance. The presence of women on boards worsens company management, leading to a decline in company performance (Darmadi, 2013). This, in turn, leads to underpricing of company shares. Reutzel and Belsito (2014) stated that there is a negative and significant influence between women on boards and company performance. Intolerance towards unethical behavior strengthens internal company processes, which impacts company performance, reduces agency costs, and influences underpricing (Badru, Ahmad-Zaluki, and Wan-Hussin, 2017).

Based on the analysis of the Age of Board data, there was no significant effect between board age and underpricing. This finding is inconsistent with the research conducted by Arora and Singh (2020), which found a positive effect between board age and underpricing. Other studies, such as Assenga et al. (2018), found no significant effect between board age and company performance. Diversity in age and educational qualifications among board members did not affect company performance and did not lead to underpricing of the company's shares. Furthermore, this study aligns with research conducted by Ramping (2011), which explained the absence of a significant effect between board age and company performance. Age diversity among board members did not affect company performance, thus, it did not influence the phenomenon of underpricing of company shares. This study aligns with Al-Swidi et al. (2012), which explained the absence of a significant effect between board age and company performance, thus, there was no effect on underpricing of company shares.

Based on the analysis of the Related Board Members data, there was no significant effect between related board members and underpricing. The results of this study align with those of Arora and Singh (2020), who found no significant effect of related board members on underpricing. Furthermore, this study aligns with Pranata et al. (2019), who stated that related board members have no significant effect on company performance. This occurs because family-owned companies place family members in management positions that do not align with their respective areas of expertise. Consequently, family ownership may own the company but fail to improve its performance (Valentino and Juniarti, 2017). Consequently, this has no effect on the underpricing of the company's shares. Another similar study, conducted by Prabowo and Simpson (2011), found no significant effect of related board members on company performance. This, in turn, does not impact company performance and does not result in underpricing of the company's shares.

Conclusion and Recommendation

Based on the analysis, it can be concluded that the board of commissioners (BOC) and board independence (BIND) significantly influence underpricing. This means that many board commission members and independent board members are able to anticipate the initial price setting, preventing it from being too far from the opening price on the first day. Similarly, Women on Board (WOB) also significantly impacted underpricing, indicating that WOB is essential for gender balance, thus providing input to encourage careful board decision-making. Meanwhile, board size, board age, and related board members did not impact underpricing.

Investors should consider the role of women on the board and the top ten shareholders in improving corporate governance before investing in IPO shares. Furthermore, they should also consider the effectiveness of women on the board and the top ten shareholders in their roles as shareholders, as stated in the IPO prospectus. Investors should also consider and calculate the difference between the primary and secondary market share prices. This will enable investors to be more discerning and careful in making investment decisions regarding IPO companies, and reduce the phenomenon of underpricing in IPO companies.

This study has several shortcomings and limitations; therefore, it can provide suggestions for future researchers in the same field to include other variables that can influence underpricing, including business risk (Zeitun, 2014). Then the next research suggestion is expected to conduct VIF diagnostics and if there is a high correlation between variables (e.g. board size, board committees, board independence), consider principal component analysis or ridge regression techniques to stabilize the estimates.

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