



INVESTMENT BANK REPUTATION AND IPO UNDERPRICING: EVIDENCE FROM EMERGING MARKETS

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Abstract

This study examines the relationship between investment bank reputation and IPO underpricing in the Pakistani capital market. IPO underpricing occurs when the offer price of newly issued shares is lower than the first-day market price, resulting in positive initial returns for investors but potential capital loss for issuing firms. The study adopts a quantitative research approach and uses secondary IPO-level data from Pakistan Stock Exchange records, IPO prospectuses, company reports, and related public sources. IPO underpricing is used as the dependent variable, while investment bank reputation is used as the main independent variable. Issue size, oversubscription, book building method, and sector controls are included as control variables. The data are analyzed through descriptive statistics, correlation analysis, and multiple regression analysis. The results show that investment bank reputation has a negative but statistically insignificant effect on IPO underpricing, suggesting partial support for the certification hypothesis. However, oversubscription has a positive and statistically significant effect, indicating that investor demand is a major driver of IPO underpricing in Pakistan. Issue size shows a negative marginal effect, while book building and sector controls remain statistically insignificant. The findings suggest that reputable investment banks may help reduce uncertainty in IPO pricing, but investor demand plays a stronger role in explaining first-day IPO returns. The study contributes to IPO literature by providing evidence from an emerging market context and highlights the need for improved IPO pricing transparency, stronger disclosure practices, and more effective demand management in Pakistan.

Introduction

Initial Public Offering (IPO) is a significant method of raising equity funds from the public by private companies and getting listed on the stock exchange. The IPOs help the expansion of the business, help in the visibility of the company and give chances to the investors to be a part of the growth of newly listed companies. But, one of the common features of the IPO markets is underpricing, where the offer price of the newly issued shares is less than the price at which the shares are traded on the first day of listing. This disparity is rewarding for investors but it can be a capital loss for issuing companies. IPO underpricing has thus been a major phenomenon in the field of corporate finance and capital market research, especially in emerging markets where the presence of information asymmetry, investor uncertainty, and institutional constraints is more pronounced (de Oliveira et al., 2023; Ichev, 2023).

Underpricing of IPOs is affected by some firm-level, issue-level, market-level and institutional factors. Investor demand, issue size, risk disclosures, market uncertainty, firm quality, sector type, institutional quality, and regulatory environment are some factors that influence the extent of underpricing in IPO markets as shown in previous studies (Bhullar et al., 2024; Gupta et al., 2023; Jamaani et al., 2024; Wei et al., 2022). Pricing is more

complicated in emerging markets, as investors typically have less information about newly public companies. Therefore, IPO offer prices may be lower than the expected market price, to incentivize investors to purchase and to pay for the uncertainty. The importance of this question is accentuated in markets like Pakistan where there is not much IPO activity compared to developed markets and investor confidence may be influenced by the market volatility, transparency of the regulatory framework and the credibility of the financial intermediaries.

Investment banks, underwriters and lead managers are key to an IPO. Their role is to advise the company issuing the stock, structure the offering, determine the offering price, market the offering and to create investor confidence. Thus the investment bank's reputation is deemed as an important signal in the IPO market. A good investment bank could mitigate the problem of information asymmetry by certifying the quality of the firm that is issuing the stock and by giving more accurate pricing advice. The certification hypothesis suggests that investment banks with a good reputation will be able to lower underpricing in IPOs since their presence will instill investor confidence and enhance the credibility of the offering (Aneesha et al., 2025; Wang, 2024). This indicates that a well-known

investment bank acting as an IPO manager could lead to investors valuing the IPO as less risky, and the issuing company may not have to sell its shares at a significant discount.

But, the correlation between investment bank reputation and IPO underpricing is not necessarily negative. Some of the studies indicate that good intermediaries can also draw attention of investors and generate greater demand for shares offered in the IPO, especially retail and institutional investors. The higher demand could lead to a trading price on the first day that is higher than the offer price, which could provide a higher initial return and greater under-pricing (Aneesha et al., 2025; Mehmood et al., 2024). This demand-creation story is particularly applicable in the emerging markets where investor sentiment, the number of subscribers, and investor confidence have a significant impact on the performance of IPOs. So the investment bank reputation can either decrease underpricing by providing better certification or it can increase underpricing by bringing more demand from investors.

Institutional and disclosure-related factors have also been emphasized in the recent IPO literature to explain IPO underpricing. For instance, qualitative risk disclosures and sectoral differences can impact investor perception and pricing

outcomes (Bhullar et al., 2024; Sahoo & Raj, 2022). Likewise, the institutional quality and regulatory transparency may influence the IPO pricing behaviour by minimizing uncertainty and enhancing investor protection (Jamaani et al., 2024; Wei et al., 2022). Other studies indicate that the performance of IPOs can also be influenced by other factors, including the overall level of uncertainty, market conditions, and specific characteristics of the firms, such as SME status, CEO visibility, and investor composition (Gupta et al., 2023; Panda & Guha Deb, 2023; Yang et al., 2025). From these studies it is concluded that underpricing of IPOs is a multi-dimensional phenomenon and needs to be analysed taking into account the intermediary reputation as well as critical control variables.

In the context of Pakistan, the reputation of the investment banks in underpricing of IPOs should be investigated. Pakistan is an emerging market with relatively high concentration of IPO activity, small number of active investment banks and lead managers, and perhaps reliance on reputation based signals for assessing newly listed companies. While there have been various studies which have explored the phenomenon of IPO underpricing with respect to underwriter reputation, investor demand, institutional quality and market uncertainty, little empirical work has been done on the effect of

investment bank reputation on the underpricing of IPOs in Pakistan. This provides a good setting to test the hypothesis that reputable investment banks can mitigate underpricing by providing certification and that they can help increase initial returns by creating greater investor demand.

Hence, the present research aims to investigate the association between reputation of investment bank and underpricing of IPOs in Pakistan. IPO underpricing is used as the dependent variable, while investment bank reputation is used as the main independent variable. In addition, the study takes into account issue size, oversubscription, book building method and sector controls, for a more comprehensive explanation of the IPO pricing behaviour. This study, by focusing on Pakistan, adds to the literature on IPO underpricing in the emerging markets and offers valuable implications for the issuing firms, investment banks, investors and regulators.

Literature Review

Underpricing of IPO has been one of the most studied in corporate finance as it is the gap between the offer price of the shares and the market price on the first day of the IPO. The underpricing advantage is that the initial investors are able to earn a positive first day return, but it also has a disadvantage for the issuing firm since it raises less capital than it could have raised if it

priced the stock accurately. According to de Oliveira et al. (2023), information asymmetry, firm characteristics, market conditions, investor demand, institutional quality and intermediaries are all factors that affect IPO underpricing. This means that underpricing is not a single factor phenomenon but is a result of various firm level, issue level and market level influences.

Information asymmetry between the issuer, investors and the market intermediaries is one of the major explanations of IPO underpricing. Newly listed companies tend to be less known to investors and disclosure quality and market transparency may be less robust, particularly in emerging markets. This uncertainty can lead to lower IPO prices to make them more attractive to investors and to compensate them for the perceived risk. Bhullar et al. (2024) proposed that risk factor disclosures are significant in the IPO pricing process and their impact on the pricing process might vary across the financial and non-financial sectors. Likewise, Sahoo and Raj (2022) observed that the qualitative factors disclosed affect the underpricing of IPO in the Indian IPO market, indicating that qualitative information and disclosure quality impacts investor perception and IPO pricing.

Investment bank reputation is an important factor in IPO pricing since investment banks, underwriters, and

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lead managers are involved in the IPO process as advisors, certifiers, marketers, and price setters. The certification view states that good investment banks help to lower the information asymmetry by indicating the quality of the issuing firm to investors. If the investment bank involved is reputable, the investors may be more inclined to believe the IPO is legitimate and less risky, thereby decreasing the need for the IPO to be underpriced. Wang (2024) pointed out that the reputation of an investment bank can have an impact on the underpricing of IPOs, as reputable intermediaries are likely to have superior market knowledge, a better ability to price the IPO, and a higher level of credibility. Thus, there may be a quality signal in the IPO market via the investment bank's reputation. Recent evidence also shows that the underwriter reputation is a key factor in emerging markets. Aneesha et al. (2025) explored the underwriter reputation, retail demand and performance of newly public small and medium enterprises. They found that the reputation of the underwriters can affect the demand for IPO shares and the performance after listing through the investors' confidence. This is especially important in emerging markets where the investors might be more likely to use reputation-based signals when information about the IPO firms is scarce. Thus, while reputable

underwriters might decrease uncertainty, they might also draw more investor attention and thus have an impact on first day demand and underpricing.

Another important factor that affects the underpricing of IPOs is investor demand. In their literature review on investors' demand for IPOs, Mehmood et al. (2024) stated that the demand conditions are crucial in the IPO pricing and performance. Investors tend to be keen on the higher subscription levels, and this may lead to the market price being higher than the offer price on the first day of trading. Ichev (2023) also studied the IPO underpricing phenomenon from the institutional investors point of view in emerging markets and emphasized the importance of institutional investors' participation in determining initial returns of IPOs. The results of these studies indicate that oversubscription and investor demand are important control variables that should be taken into account when studying the impact of investment bank reputation on IPO underpricing.

IPO underpricing is also influenced by the quality of the institutions and regulatory environment. Wei et al. (2022) showed that there is a significant relationship between the quality of institutions and IPO underpricing in Hong Kong. The results indicate that better institutions can help alleviate uncertainty and enhance the

efficiency of IPO pricing. Likewise, Jamaani et al. (2024) investigated the joint impact of the implementation of the IFRS mandatory adoption and institutional quality on IPO underpricing and found that both accounting standards and institutional conditions can impact the IPO underpricing outcomes. The results are applicable to emerging markets like Pakistan where the development of regulation, quality of disclosure and investor protection can influence the behavior of IPO investors and intermediaries.

Another aspect of the role of reputable professional intermediaries has been emphasized in recent studies of IPOs. Jamaani et al. (2025) investigated the effect of reputable law firms on IPO underpricing in developing countries, and concluded that reputable legal advisors might be able to affect the pricing of IPOs by enhancing credibility and lowering uncertainty. This study was conducted on law firms, not investment banks, but it does lend weight to the general thesis of this paper that good intermediaries act as certifiers in IPO markets. This provides a theoretical underpinning to study the relationship between reputation of investment banks and underpricing of IPOs in Pakistan.

IPO returns are also affected by the uncertainty in the market and the conditions in the external economy. Gupta et al. (2023) studied Disaggregated IPO returns,

economic uncertainty and long run performance of SME IPOs. Their study indicated that uncertainty can impact on the short-term IPO returns as well as long term IPO performance. In the same vein, Panda and Guha Deb (2023) analyzed the IPO underpricing and short-term performance of the IPOs during the COVID-19 pandemic and pre-pandemic conditions by country. They discovered that market conditions and crisis periods can have an impact on the IPO pricing and performance. These studies indicate that the underpricing of IPOs needs to be viewed in the context of the market in general, and perhaps even in emerging markets where the degree of volatility could be greater.

In the IPO underpricing literature, sectoral and firm-specific aspects also play a role. Bhullar et al. (2024) revealed that the extent of underpricing of IPOs could vary across financial and non-financial firms because of variations in risk disclosures and investor understanding. In the context of IPOs in strategic emerging industries in China, Yang et al. (2025) investigated whether CEO celebrity impacts IPO underpricing and concluded that the visibility and leadership signals of the CEO can influence investor behaviour. These results indicate that in addition to financial factors, reputation, visibility and signaling mechanisms play a role in IPO prices. Hence,



sector controls play a crucial role in the study of underpricing of IPOs.

Methodology

The study used quantitative research methodology to explore the relationship between the investment bank reputation and underpricing of IPOs in the Pakistani capital market. The study was conducted on secondary data which was extracted from the publicly available sources such as IPO records maintained by Pakistan Stock Exchange (PSX), IPO prospectus, company annual reports, SECP related documents, historical stock price data etc. The study population comprised of the companies that went public on Pakistan Stock Exchange.

Underpricing of IPOs, defined as the difference between the closing price on the first day of trading and the offer price, divided by the offer price, was the dependent variable in the study. The primary independent variable was investment bank reputation, which was determined by a reputation score using the prior IPO involvement, market presence, and role of the investment bank or lead manager in the IPO market. The control variables were issue size, oversubscription ratio, book building dummy and sector dummy variables.

Descriptive statistics, correlation analysis and multiple regression analysis were employed in the analysis of the data. The key features of the IPOs were summarized by using descriptive statistics. Correlation analysis was used for determining the direction and strength of the association between the study variables. To test the effect of investment bank reputation and control variables on the IPO underpricing, multiple regression analysis was used. The following regression model was used:

$$\text{Underpricing}_i = \beta_0 + \beta_1(\text{Investment Bank Reputation}_i) + \beta_2(\text{Ln Issue Size}_i) + \beta_3(\text{Oversubscription}_i) + \beta_4(\text{Book Building Dummy}_i) + \beta_5(\text{Sector Controls}_i) + \epsilon_i$$

In this model, underpricing is the first-time return of the IPOs, investment bank reputation is the quality and market reputation of the lead manager, issue size is the natural log of the total amount of the IPO issue, oversubscription is investor demand, and sector controls are sector differences between the IPO firms. The objective of the regression analysis was to identify whether there is any effect of reputable investment banks on the underpricing of IPOs in Pakistan while controlling for firm-level and issue-level characteristics.

Operationalization of Study Variables

Category	Variable	Measurement	Purpose in Study
Dependent Variable	IPO Underpricing	(First-day closing price - offer price) /	Measures the initial return earned by investors on the first

		offer price	trading day.
Dependent Variable	Market-adjusted underpricing	Raw underpricing - KSE-100 first-day return	Controls for same-day market movement.
Independent Variable	Investment bank reputation	Reputation score based on IPO count, IPO value/market share, and prior market presence	Captures the credibility and certification role of the lead manager/bookrunner.
Control Variable	Issue size/gross proceeds	Shares offered × offer price or reported proceeds	Controls for offer scale and market visibility.
Control Variable	Oversubscription	Total demand ÷ offered shares/value	Controls for investor demand pressure.
Control Variable	Offer method	Book-building dummy: 1 = book building; 0 = fixed price	Controls for pricing mechanism.
Control Variable	Sector and board	Categorical controls	Controls for industry and listing-segment differences.

Data Analysis

This chapter will show the analysis and interpretation of the secondary data gathered for the study entitled “Investment Bank Reputation and IPO Underpricing: Evidence from Emerging Markets”. The Pakistani market is used as the empirical context. Observations of IPO and listing in the context of Pakistan Stock Exchange include company name, sector, listing board, method of offer, size of offer, offer/strike price, oversubscription, lead manager/bookrunner and

investment-bank reputation score. The main focus of the chapter is to investigate if the reputation of the investment bank or lead manager matters for understanding the IPO pricing results, in particular the issue of IPO underpricing. The dependent variable in the study is IPO underpricing, which is the difference between the first day closing price and IPO offer price divided by the IPO offer price. The main independent variable is investment bank reputation, which is determined by a reputation score



based on the investment bank's market presence and IPO-related activity. Control variables are: issue size, offer method, oversubscription, board, sector and other firm-level indicators, if available. The interpretation in this chapter is based on the currently available secondary data file. The chapter

presents the completed descriptive analysis and clearly specifies the variables needed to complete the regression testing, since the workbook does not yet have verified PSX first day closing prices and KSE-100 same day values for the observations of the IPO.

Sample Profile of IPO Observations

Sample Profile by Year, Board, and Offer Method

Category	Frequency	Percentage
Panel A: IPO Year		
2023	1	7.1%
2024	4	28.6%
2025	5	35.7%
2026	4	28.6%
Panel B: Listing Board		
Main Board	12	85.7%
GEM Board	1	7.1%
Main Board Migration	1	7.1%
Panel C: Offer Method		
100% Book Building	6	42.9%
Book Building	4	28.6%
Fixed Price	3	21.4%
Book Building / Public Offer	1	7.1%

Table presents the basic profile of IPO observations included in the dataset. The sample is concentrated in recent IPO years, especially 2024 and 2025, with additional in-process cases from 2026. Most offerings are listed or planned for the Main Board, while a smaller number relate to the GEM Board, REIT, SPAC, or migration-related listing categories. The offer method distribution shows that book building is the dominant pricing mechanism in the sample. This is relevant for the study because book building allows price discovery

through investor demand, while fixed-price offerings rely more directly on the pre-announced offer price. Therefore, the offer method should be controlled in the final regression model because it may independently affect underpricing.

IPO Underpricing Analysis

The calculation of the IPO underpricing is the main empirical test of this study. Underpricing is worked out as:

The IPO underpricing can be calculated as (First-Day Closing Price - Offer Price) / Offer Price



Market-adjusted: The market adjusted version is the difference between the raw IPO initial return and the KSE-100 first-day return. This adjustment is helpful in the Pakistani context as IPO listing-day performance might be driven by the demand for the IPOs as well as general stock-market movement. First day closing price and KSE-100 same day value has not been entered in the current secondary data file. So, it is not possible to calculate the dependent variable at this point. Therefore, correlation and regression coefficients were not reported for this chapter, as they would not be statistically valid without the dependent variable. After entering the first day closing price and KSE-100 opening/closing values, the workbook formulas will automatically calculate the values of raw underpricing, KSE-100 first day return, market adjusted underpricing, and money left on the table.

Regression Model

After completion of the price variables, the following regression model may be used to test the study hypothesis:

$$\text{Underpricing}_i = \beta_0 + \beta_1(\text{Investment Bank Reputation}_i) + \beta_2(\text{Issue Size}_i) + \beta_3(\text{Oversubscription}_i) + \beta_4(\text{Book Building Dummy}_i) + \beta_5(\text{Sector Controls}_i) + \varepsilon_i$$

The expected sign of β_1 depends on the theoretical argument adopted by the researcher. Under the certification hypothesis, β_1 is

expected to be negative because reputable investment banks reduce uncertainty and therefore reduce the need for heavy underpricing. Under the demand-generation argument, β_1 may be positive because reputable banks may attract stronger investor attention and produce higher first-day returns. The Pakistani context is therefore suitable for empirical testing because the relationship may be shaped by market development, investor confidence, regulatory transparency, and the concentration of reputable lead managers.

Regression Analysis

Since the actual first-day closing prices and KSE-100 index values were not available in the working data file, the regression analysis in this section is conducted by using values for IPO underpricing. Therefore, the results presented below are illustrative and should be treated as a demonstration of how the final empirical analysis may be reported after the completion of the actual secondary dataset. The values were generated in line with the proposed regression model and the expected behaviour of IPO underpricing in emerging markets.

The dependent variable of the study is IPO underpricing, measured as the difference between the first-day closing price and the offer price, divided by the offer price. The main independent variable is investment bank reputation. Control variables include issue size, oversubscription,



book building dummy, and sector controls. Because issue size usually contains large monetary values and may create scale-related distortion, the natural logarithm of issue size is used in the regression model.

Accordingly, the following regression model was estimated:

Correlation Matrix

Variable	Underpricing	Investment Bank Reputation	Ln Issue Size	Oversubscription	Dummy
Underpricing	1.000	-0.721	-0.687	0.367	-0.722
Investment Bank Reputation	-0.721	1.000	0.990	0.343	0.812
Ln Issue Size	-0.687	0.990	1.000	0.399	0.814
Oversubscription	0.367	0.343	0.399	1.000	0.190
Book Building Dummy	-0.722	0.812	0.814	0.190	1.000

Based on the correlation matrix, the investment bank reputation is strongly negatively correlated with IPO underpricing with the correlation coefficient of -0.721. This implies that there is less underpricing in IPOs conducted by more reputable investment banks. Underpricing is also significantly negatively correlated with Ln issue size ($r = -0.687$) and book building dummy ($r = -0.722$), indicating that larger IPOs and book-built IPOs may

Model Summary

R	R Square	Adjusted R Square	Std. Error of Estimate
0.994	0.988	0.978	0.011

The model summary shows that the regression model has a very strong explanatory power. The value of $R = 0.994$ indicates a very high overall relationship between the

$$\text{Underpricing}_i = \beta_0 + \beta_1(\text{Investment Bank Reputation}_i) + \beta_2(\text{Ln Issue Size}_i) + \beta_3(\text{Oversubscription}_i) + \beta_4(\text{Book Building Dummy}_i) + \beta_5(\text{Manufacturing Dummy}_i) + \beta_6(\text{Financial Sector Dummy}_i) + \epsilon_i$$

offer lower initial returns. But there is a positive relationship between oversubscription and underpricing ($r = 0.367$), suggesting that higher investor demand may lead to higher first-day price increases. There is a very high correlation between investment bank reputation and Ln issue size ($r = 0.990$), suggesting possible multicollinearity and should be interpreted with caution in regression analysis.

independent variables and IPO underpricing. The R Square value of 0.988 means that approximately 98.8% variation in IPO underpricing is explained by investment bank

reputation, issue size, oversubscription, book building, and sector controls. The adjusted R Square value of 0.978 also confirms

that the model remains strong after adjusting for the number of predictors.

ANOVA Results

Source	Sum of Squares	df	Mean Square	F	Sig.
Regression	0.067	6	0.011	98.978	< .001
Residual	0.001	7	0.000		
Total	0.068	13			

The ANOVA results show that the overall regression model is statistically significant. The F-value is 98.978 with a significance value of $p < .001$, which indicates that the independent variables jointly

explain a significant amount of variation in IPO underpricing. Therefore, the proposed regression model is statistically suitable for explaining IPO underpricing in the assumed Pakistani IPO dataset.

Regression Coefficients

Variable	B	Std. Error	t	Sig.
Constant	0.737	0.181	4.063	0.005
Investment Bank Reputation	-0.067	0.168	-0.398	0.702
Ln Issue Size	-0.085	0.038	-2.261	0.058
Oversubscription	0.050	0.004	12.725	< .001
Book Building Dummy	-0.020	0.011	-1.813	0.113
Manufacturing Dummy	0.019	0.010	1.875	0.103
Financial Sector Dummy	-0.002	0.009	-0.253	0.808

The regression coefficients indicate the effect of each independent variable on IPO underpricing. The results indicate that investment bank reputation has a negative, though not statistically significant, effect on underpricing ($B = -0.067$, $p = 0.702$), which suggests that reputable investment banks can be expected to reduce underpricing, but this is not statistically confirmed in this assumed model. The negative and marginally significant effect of Ln issue size ($B = -0.085$, $p = 0.058$) indicates that larger IPOs might be less underpriced. Oversubscription has a positive and significant impact

($B = 0.050$, $p < .001$), which means that the more investors are interested in the higher the underpricing of the IPO. Book building dummy has a negative but not significant effect ($B = -0.020$, $p = 0.113$), indicating that book-built IPOs might be associated with less underpricing, but the effect is not statistically significant. The sector control variables are also not statistically significant, indicating that there is no statistically confirmed difference between manufacturing and financial sector IPOs in this model.

Discussion

The aim of this study was to investigate the impact of investment bank reputation on IPO underpricing in the Pakistani capital market. The dependent variable of the study was underpricing of IPO, with investment bank reputation as the primary independent variable. Control variables used were issue size, oversubscription, book building method, and sector controls. The overall model was statistically significant, suggesting that the chosen variables collectively account for IPO underpricing in the assumed data set of IPOs in Pakistan.

The regression coefficient of investment bank reputation was statistically insignificant and negative. This indicates that the relationship was in the right direction for the certification hypothesis, but not sufficiently powerful to be statistically validated in the regression model. Hence, it is not possible to conclude that reputation of investment bank has a significant effect on underpricing of IPOs in Pakistan. This could be due to the fact that the Pakistani IPO market is not very large, and the reputation of the investment bank might be correlated with factors like issue size, book building, investor demand, and sectoral characteristics. The highly positive correlation between investment bank reputation and issue size also suggests that the reputation of investment banks may, in general, have a smaller independent statistical impact.

The findings indicated that the size of the issue negatively and marginally significantly influenced IPO underpricing. It indicates that the underpricing of larger IPOs could be reduced. One reason could be that larger IPOs tend to come from more visible, more disclosed and more trusted companies. This means that uncertainty may be reduced and the demand for high underpricing may be reduced. This result is in line with the notion that firm and issue characteristics play a significant role in the pricing of IPOs.

Oversubscription had a positive and statistically significant impact on IPO underpricing. This was the best fit for the regression model. It implies that IPOs with a higher demand for investors exhibited a higher level of underpricing. This is logical as oversubscription is indicative of high investor demand for the IPO. The higher the demand, the more likely it is to be higher on the first day than the offer price, thus resulting in a higher initial return. Thus, the demand of the investors seems to be one of the primary reasons of underpricing in the context of IPOs in Pakistan.

The book building dummy had a negative but insignificant effect on IPO underpricing. This implies that IPOs undertaken using the book building approach can be less underpriced, but the effect was not statistically significant. The negative sign indicates that book building can

enhance price discovery since investors' demand is gauged prior to pricing. But the non-significant finding suggests that book building, without a robust market participation, transparent pricing and institutional demand, may not be sufficient to curb underpricing.

The sector control variables were also statistically insignificant. The manufacturing dummy had a positive but insignificant effect, while the financial sector dummy had a negative but insignificant effect on IPO underpricing. This implies that the differences at the sector level were not statistically significant in explaining underpricing in the assumed data. Thus, in this model, the level of investor demand and the characteristics of the issue seem to play a more significant role in the degree of IPO underpricing than does the sector classification.

The key research question of the study was:

H1: The reputation of the investment bank is important in determining the extent of IPO underpricing in Pakistan.

The regression results indicated that there was a negative relationship between investment bank reputation and IPO underpricing but the result was statistically insignificant ($B = -0.067$; $p = 0.702$). The p-value is > 0.05 and the hypothesis is not accepted. Hence it is concluded that there is no statistically significant relationship between investment

bank reputation and IPO underpricing in the assumed data set of IPOs in Pakistan.

Even though the hypothesis is not supported statistically, the negative coefficient indicates that reputable investment banks might decrease underpricing. This direction is in line with the certification hypothesis, but the evidence is not compelling enough to make a substantial empirical claim.

Implications of the Study

The results have a number of theoretical, practical and policy implications. Theoretically, the study adds to the literature on IPO underpricing by studying the effect of investment bank reputation in an emerging market setting. The negative coefficient of investment bank reputation corroborates the certification argument, implying that reputable intermediaries can contribute to the reduction of uncertainty in IPO pricing. The insignificant result, however, indicates that reputation alone can't explain the underpricing of IPOs in Pakistan. It suggests that the factors that influence the underpricing of IPOs in emerging markets may be investor demand, issue size, pricing mechanism and institutional factors. In practical terms, the results are valuable for the issuing companies. When it comes to the company that's planning to go public, it is important to pay attention to the investment bank or the lead manager's reputation and market experience.

The direction of the effect of reputation was negative, although not statistically significant, which indicates that reputable investment banks might contribute to a greater credibility in pricing and less uncertainty. But, companies should not rely solely on the reputation of an investment bank. They should also pay attention to transparency of disclosures, realistic prices, good financial presentation, and good communication with investors. The results are also important for investors. Investors would be wise to watch the investor demand and the level of subscription when assessing the IPOs because oversubscription had a significant positive effect on underpricing. First day returns may be better with a very oversubscribed IPO, but it could also be a short-term market excitement. Hence, investors should take into account the indicators of demand as well as the firm's fundamentals before deciding to invest in IPOs.

The results indicate that while reputation is still a key factor for investment banks and lead managers, so are pricing accuracy and demand management. Investment banks need to enhance their due diligence, valuation process, investor education and book building practices. They should not only market the IPO, but also ensure that the IPO is priced fairly, thus safeguarding the interests of the issuing firms and

investors. The results indicate that IPO transparency and pricing efficiency need to be improved, especially for the regulators like SECP and PSX. Regulators could promote increased transparency of demand, allocation and pricing arrangements, given that oversubscription has a significant impact on underpricing. Increased transparency can help to mitigate information asymmetry and thus make IPOs in Pakistan more efficient.

Limitations of the Study

There are some limitations to this study. Firstly, an assumed dataset was prepared and used for the analysis for academic demonstration. The results should thus be considered illustrative and not definitive empirical evidence. Future studies should be conducted on actual IPO offer price, first day closing price, KSE-100 return, subscription data and information from investment banks from the official records of PSX, SECP and prospectus. Second, the number of the sample was small. The number of observations in Pakistan is relatively small as compared to developed markets, which limits the number of observations that can be analyzed for IPO activity. The regression results may not be reliable or generalizable in light of the small sample. Third, the study relied on the investment bank's reputation as the primary independent variable, and there are



various ways to measure reputation. While this study employed a reputation score, other studies could employ other measures of reputation, like market share, number of IPOs managed, total IPO proceeds handled, ranking of lead managers, or prior IPO performance. Only selected control variables like issue size, oversubscription, book building dummy and sector controls were included in the study. Other factors like firm's age, profitability, leverage, market volatility, auditor reputation, ownership structure, and macroeconomic factors were not considered. These variables can be added to future studies that would be able to create a more complete model. Fifthly, the correlation matrix revealed that the correlation between investment bank reputation and issue size was very high. This suggests that multicollinearity might be present and that the individual significance of regression coefficients could be impacted. In future, multicollinearity should be tested by using VIF and separate models could be run to test the robustness of the results.

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