THE EFFECT OF RISK DISCLOSURE AND INVESTORS' ATTENTION ON IPOs INITIAL RETURN OF INDONESIAN COMPANIES

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ABSTRACT

The research objective is to examine and analyze the effect of internal risk disclosure, external risk disclosure, investment risk disclosure, and investors' attention on initial return. This research is causality research and uses secondary data. The population is a company that conducts IPOs on the Indonesia Stock Exchange (IDX) in the 2011-2018 period with 224 companies. The sampling technique used was purposive sampling and obtained a total of 210 companies. The research results stated that there is no effect of internal risk disclosure, external risk disclosure, and investment risk disclosure on initial returns. There is a significant positive effect of investors' attention on initial returns.

Keywords: Risk Disclosure; Investors Attention; Initial Return; Initial Public Offering

ABSTRAK

Tujuan penelitian yaitu menguji dan menganalisis pengaruh pengungkapan risiko internal, pengungkapan risiko eksternal, pengungkapan risiko investasi dan investor attention terhadap initial return. Penelitian ini merupakan penelitian kausalitas. Data yang digunakan sekunder. Populasi adalah perusahaan yang melakukan IPO di Bursa Efek Indonesia (BEI) pada periode 2011- 2018 dengan jumlah 224 perusahaan, teknik pengambilan sampel menggunakan purposive sampling dan diperoleh jumlah sampel penelitian sebanyak 210 perusahaan. Hasil penelitian antara lain, yaitu tidak terdapat pengaruh pengungkapan risiko internal, pengungkapan risiko eksternal dan pengungkapan risiko investasi terhadap initial return, terdapat pengaruh signifikan positif atensi investor terhadap initial return.

Kata Kunci :   Pengungkapan Risiko; Perhatian Investor; Initial Return; *Penawaran Umum Perdana*
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INTRODUCTION

Initial returns are the difference between stock prices during the Initial Public Offerings (IPOs) period in the primary market and stock prices in the secondary market (Wasiuzzaman et al., 2018). Initial returns of IPOs are underpricing conditions. IPOs underpricing occurs if the tendency of the first day's closing price is higher than the stock issuance price at the time of the IPOs. IPO underpricing is a widespread phenomenon that has been documented in several countries and continues over time (Cornanic & Novak, 2015). IPOs are important events that attract a lot of attention (Boulton et al., 2010; Engelen & Van-Essen, 2010), and initial returns occur in a short period (Ljungqvist, 2004). Therefore, research on initial returns of the IPOs becomes interesting to reveal the factors that influence them.

Signaling theory explains the case of underpricing in companies conducting IPOs. Welch (1989) has designed a signaling model that demonstrates that stock issuer companies will use IPOs underpricing to signal the quality of information disclosed to investors. IPOs pricing reflects the signal sent by issuers who have information to sophisticated investors or as a form of compensation for naive investors for adverse investment choices. Signs are essential in analyzing initial returns at the IPOs, especially in countries with capital markets that face high information asymmetry (Francis et al., 2010).

Information asymmetry can be reduced by disclosing information (Alon & Elango, 2018) (Alon & Elango, 2018). Disclosure of information, such as disclosure of risks to investors, will influence investor perceptions, assuming that managers disclose risks that are beneficial to investors (Kravet & Muslu, 2012). Disclosure of risks, namely internal risk disclosure, external risk disclosure, and investment risk disclosure, is expected to reduce information asymmetry between issuers and investors and between investors who have information and those who do not have data.

Furthermore, Financial Behavior Theory explains investor behavior in investment decision-making. Investors' decision-making is influenced by investors' reasoning and emotional processes (Ricciardi & Simon, 2000). Logical reasoning will be used to obtain the best results by comparing risk and return or cost and benefit among many alternative decisions. However, investors also often use their emotions to make an investment decision. Even in the semi-strong form of the capital market, most investors tend to make investment decisions based on their feelings have emotions that can influence their choices (Kapoor & Prosad, 2017). Ricciardi & Simon (2000) also explained that financial and non-financial factors such as sociology and psychology impact investors' decision-making. It means that economic behavior is not only influenced by rational factors but also influenced by irrationalities such as sociology and psychology. In investment and decision-making, investors' financial behavior is affected by various changes or noise in financial markets, individual perceptions, and conditions (Bikas & Jureviciene, 2013).

Investors' attention is the majority of investors' attitude in anticipating price developments in the capital market (Bijl et al., 2016). Kim et al. (2019) show that the investors' attention is closely related to trading volume and stock prices. The stocks that get higher investors' attention tend to increase stock trading volume than those that get fewer investors' attention (Aouadi et al., 2013). Financial behavior includes various factors such as changes in financial markets, individual perceptions, and conditions that affect investment or financial decision-making (Bikas & Jureviciene, 2013). In this situation, investors are faced with many stock investment choices and are required to make an investment decision in a limited time. Investors will tend to buy

and invest in stocks that get high investors' attention (Barber & Odean, 2008). Based on financial behavior theory, investors buy shares not only for a reason, but investors are influenced by irrational factors that impact increasing investor attention.

This study aims to analyze the effect of the level of risk disclosures, including internal risk, external risk, and investment risk, and investors' attention to the initial return of IPOs. This study combines the information asymmetry model of Wasiuzzaman et al. (2018) and the behavioral model of Zhao et al. (2018). This research explains the factors that influence the stock pricing of companies conducting IPOs in Indonesia. In addition to the disclosure of information made by issuers to reduce information asymmetry between issuers and investors or potential investors, initial return is also influenced by behavioral factors of investors or potential investors.

METHOD

The population in this study are companies that conducted IPOs on the Indonesia Stock Exchange (IDX) from 2011-to 2018, with 224 firms. The sampling method in this study was purposive judgment sampling with a total sample of 210 firms. Companies excluded from the selection consisted of 6 companies that did not have a Search Volume Index (SVI) on Google Trends according to the required data (for eight weeks in a row before the company's IPO), and eight companies included outliers. This study uses data from several sources. First, the prospectus of IPO companies is obtained from the Indonesia Stock Exchange (www.IDX.co.id) and Bloomberg Database owned by the Faculty of Economics and Business, University of Diponegoro. Second, the closing price on the first day on the Stock Exchange was accessed through Yahoo Finance. Third, the Search Volume Index (SVI) is accessed from Google Trends.

The dependent variable in this study is the initial return. Initial return is the difference between the purchased price of shares in the primary market and the selling price in the secondary market (Killins, 2019).

The independent variables consist of Disclosure of Internal Risk, Disclosure of External Risk, Disclosure of Investment Risk, and Investors Attention. Internal risk refers to the dangers faced by the company due to internal conditions such as managerial, employee, and operations-related hazards (Wasiuzzaman et al., 2018). The internal risk disclosure variable's measurement using the narrative information method with content analysis of the information presented in the prospectus is read manually and analyzed. Disclosure of internal risk is divided into 19 indicators; if the company discloses an internal stake in the prospectus according to the existing indicators, it is given a value of 1—otherwise, 0. The amount of risk announced on each hand is used as the total value of internal risk disclosure.

External risk factors are risk factors that result from the external environment. These are not able to control by the company. The company's external risk factors encompass market competition, government policies and legislation, and the economic climate (Wasiuzzaman et al., 2018). Content analysis of information presented in the prospectus measures the external risk disclosure variable. The narrative information about the external risk factors in the prospectus is read manually and analyzed. Disclosure of external risk takes in 12 items. Using content analysis, if the company discloses an external threat in the prospectus according to the existing items, it is given a value of 1; otherwise, 0. The amount of risk disclosed in each indicator is used as the total value of external risk.

Investment risk refers to the risks faced by shareholders, such as non-dividend payments, share dilution, and IPO failure (Wasiuzzaman et al., 2018). The investment

risk disclosure variable is measured by content analysis using the narrative information method; namely, the prospectus is read manually and analyzed. Disclosure of investment risk is divided into five items; if the company discloses investment risk in the prospectus according to the existing indicators, it is given a value of 1; otherwise, 0. The amount of risk announced on each hand is used as the total value of investment risk disclosure.

Investors' Attention is the behavior of most investors in the capital market to anticipate stock price developments (Bijl et al., 2016). Investors' Attention is measured by using the frequency of investors' or investors' potential searches about the company on the Google Search Engine. This research uses search keywords by company name (Da et al., 2011; Kim et al., 2019). Searching by company name has several drawbacks, namely, not all internet users who do a Google search by company name are investors. It is assumed as random noise. Therefore, in searching for data from the variable of Investors Attention, this study used several methods. First, search for companies with full names. Company stock tickers are less effective in displaying company basic information and additional information in the form of company activities that can be used as a reference for investor decisions (Aouadi et al., 2013). Second, the search location in this research is regulated in the State of Indonesia. Third, Shares that are not active or have not IPO during the specified observation period and do not have a value of 0 to 8 consecutive weeks in the GSV search will be issued to obtain unbiased results (Da et al., 2011). Fourth, the company name search in Google search Volume (GSV) does not use legal company names such as "PT" or "Tbk"(Kim et al., 2019). Measurement of Investors Attention variable, according to (Bijl et al., 2016), is as follows:

$$ASVI = \frac{SVI_t - \frac{1}{8}\sum_{i=1}^{8} SVI_i}{\sigma SVI}$$

……...…………………………………………(Equation 1)

Description:

ASVI	= *Abnormal Search Volume Index*.
SVI_t	= Search Volume Index during a week IPO period.
$\frac{1}{8}\sum_{i=1}^{8} SVI_i$	= an Average Search Volume Index during eight weeks before IPO.
σSVI	= Deviation Standard of SVI during eight weeks before IPO.

RESULT AND DISCUSSION
Descriptive Statistics

Descriptive statistics show about mean, minimum, and maximum values of the research data. Table 1 describes descriptive statistics about the initial return. The table explains that the average value of the initial return is 26.11. It means that investors earn a profit of 26.11% compared to the stock price in the initial public offering. The lowest value of the initial return of -89.73 occurred at PT Mahaka Radio Integra Tbk with MARI codes which conducted an IPO on February 16, 2016. The negative sign shows that the company is experiencing underpricing. PT Dafam Property Indonesia Tbk (DFAM) is the issuer with the highest initial return value of 183.48. Its stock price jumped 83.49 basis points or around 69.57% from the initial price of Rp 115 to Rp 195 after stocks were issued on April 27, 2018. Meanwhile, Initial returns have a standard deviation of 42,323. It shows that the distribution of data of Initial Return is very scattered.

Table 1. Descriptive Statistics

Variable	Mean	Minimum	Maximum	Standard Deviation
Initial Return	26,11	-89,73	183,48	42,323
IRD	9,79	3,00	18,00	3,096
ERD	7,18	3,00	12,00	1,832
InvRD	2,50	0,00	5,00	1,523
InvAtt	2,29	-1,09	13,93	2,349
OfferingSize	11,37	10,21	12,71	0,560
Age	19,24	2,00	65,00	13,895
FirmSize	11,85	9,40	14,29	0,736

Tables 1 and 2 show the data distribution for the Internal Risk Disclosure variable. The internal risk disclosure variable has the lowest value of 3. Three company have lowest value are PT Bank National Nobu Tbk (NOBU), PT Bank Mestika Dharma Tbk (BBMD) and PT Cipaganti Citra Graha Tbk (CPGT). The three of them conducted an IPO on December 10, 2013. The issuer with the highest internal risk disclosure disclosed 18 items, namely PT Global Teleshop Tbk (GLOB), which made an initial public offering on June 28, 2012. The average value of Internal Risk Disclosures was 9.79. It indicates that most companies disclose 9 or 10 disclosure items. Many companies that conduct initial public offerings disclose operational risks; operations may be disrupted by unexpected interruptions caused by system failures, work accidents, and production delays. A few companies disclose information about the dependence on retailers and; the limited skilled and experienced workforce in specific industries.

Table 2. Internal Risk Disclosure

Year	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
2011	11	16	11	13	2	9	19	18	17	11	16	17	16	8	14	11	9	8	11
2012	8	12	7	9	3	4	20	15	11	12	11	16	11	8	10	9	8	3	5
2013	10	19	6	9	4	3	27	24	15	14	12	22	16	5	15	10	16	12	11
2014	4	11	6	5	0	0	22	20	19	18	15	16	9	6	8	11	8	8	4
2015	9	11	4	4	2	3	16	15	8	8	11	15	10	5	7	4	8	9	5
2016	8	11	5	5	0	7	14	14	13	13	13	14	7	4	6	9	6	6	6
2017	14	24	12	14	9	5	36	35	29	27	26	32	24	4	19	14	20	3	9
2018	25	38	18	16	6	12	54	53	52	51	51	51	28	14	28	17	28	45	28
Total	89	142	69	75	26	43	208	194	164	154	155	183	121	54	107	85	103	94	79

Tables 1 and 3 illustrate descriptive statistics data from the External Risk Disclosure variable. The mean value of External Risk Disclosure is 7.18. Many companies disclose seven disclosure items related to External Risk Disclosure. The number of disclosure items for external risk has a minimum value of 3, namely PT Minna Padi Investama Tbk (PADI) with an IPO on January 9, 2012, and PT Kiosan Komersial Indonesia Tbk (KIOS) with an initial public offering on September 27, 2017. The maximum value of external risk disclosure is 12 items, specifically PT Prodia Widyahusada (PRDA) and PT ABM Investama Tbk (ABMM). For External Risk Disclosure, primarily companies disclose information about government policies that can have a material impact on the company; unfavorable financial and economic developments in Indonesia, and; changes in economic, social, and political conditions of 214 companies, 210 companies, 192 companies, and 194 companies, respectively.

Nevertheless, many companies disclosed information about the decline in Indonesia's credit rating. An outbreak of infectious disease harmed the company as many as 38 companies and 21 companies, respectively.

Table 3. External Risk Disclosure

Year	1	2	3	4	5	6	7	8	9	10	11	12
2011	13	21	15	16	24	16	16	6	19	11	25	18
2012	5	19	8	10	21	5	4	4	12	8	20	15
2013	10	25	13	16	28	23	6	4	19	10	28	26
2014	5	19	9	11	22	21	0	0	12	5	20	19
2015	3	12	11	9	16	13	5	2	10	6	15	14
2016	5	14	13	10	14	14	2	2	5	2	14	15
2017	11	31	23	26	35	33	2	1	26	1	37	36
2018	14	51	33	43	54	52	3	2	29	7	51	51
Total	66	192	125	141	214	177	38	21	132	50	210	194

Tables 1 and 4 explain the distribution of content analysis results on research instruments from the independent variables of Investment Risk Disclosure. The mean value of Investment Risk Disclosures is 2.5. The company's sample discloses 2 or 3 items of 5 Risk Investment Disclosure. After this, the minimum value for disclosure of Investment Risk is 0. It means that there are sample companies that do not disclose information about investment risk. The number of sample companies that do not disclose Investment Risk is 29. The maximum value for the Risk Investment Disclosure is 5. It shows that the sample companies disclose all items of Investment Risk Disclosure. There are 15 companies that have the highest value of Investment Risk Disclosure, such as PT Erajaya Swasembada Tbk (ERAA), PT TBS Energi Utama Tbk (TOBA), PT Wismilak Inti Makmur Tbk (WIIM), PT Dyandra Media International Tbk (DYAN), PT Saritoga Investama Sedaya Tbk (SRTG), PT Logindo Samudramakmur Tbk (LEAD), PT Sawit Sumbermas Sarana (SSMS), PT Eka Sari Lorena Transport Tbk (LRNA), PT Blue Bird Tbk (BIRD), PT Mitra Keluarga Karyasehat Tbk (MIKA), PT Kino Indonesia Tbk (KINO), PT Aneka Gas Industri Tbk (AGII), PT Hartadinata Abadi Tbk (HRTA), PT Medikaloka Hermina Tbk (HEAL), and PT Jaya Bersama Indo Tbk (DUCK). The most frequently announced items are information about stock price fluctuations and stock trading liquidity on the stock exchange. Meanwhile, items that are rarely disclosed are information about differences in the interests of controlling shareholders and investors and share dilution.

The Investors Attention variable is the typical behavior of investors in anticipating price developments in the capital market (Bijl et al., 2016). The investor attention variable has a mean value of 2.29, indicating that most sample companies received great investor attention. Meanwhile, the standard deviation of Investors Attention of 2.349 indicates that data has heterogeneous distribution. The minimum value of -1.09 suggests that there are companies with few that get investor attention and a maximum weight of 13.93 suggests that the company receives excellent investor attention. The negative sign indicates fewer investors' attention. 0 means no investor's attention, and the positive sign shows high investors attention.

The Offering Size is the number of shares offered by the company in the IPO (Wasiuzzaman et al., 2018). The Offering Size has a mean value of 11.37. On average, the company has a reasonably large offering size, with a standard deviation of 0.560, indicating a heterogeneous data distribution with non-identical values. PT Pratama

Abadi Nusa Industri Tbk owns a minimum value of 10.21, and PT Waskita Beton Precast Tbk holds a maximum weight of 12.71.

Table 4. Investment Risk Disclosure

Year	1	2	3	4	5
2011	3	10	7	14	12
2012	4	13	4	12	8
2013	9	13	7	14	14
2014	2	13	4	17	17
2015	2	10	6	10	12
2016	3	11	2	12	12
2017	3	7	1	8	8
2018	10	45	11	49	51
Total	36	122	42	136	134

The Company Age shows the company's ability to maintain the entity and is evidence that the company can compete in the business world (Badru & Ahmad-Zaluki, 2018). The variable age of the company has a mean value of 19.24, which means that the average company has been operating for 19 years and three months. The standard deviation of Company age shows 13.895 indicating a heterogeneous data distribution and a non-identical value. The minimum value of 2 means the company has been in existence for two years to the date of the IPO. The maximum value of 65 indicates that the oldest company that did an IPO has been around for 65 years.

The company size is measured by the Natural Logarithm of total assets (Badru & Ahmad-Zaluki, 2018). The company's size has a mean value of 11.85, and the average company has a large number of total assets. PT Sky Energy Indonesia Tbk owns the minimum value of 9.40. PT SMR Utama Tbk owns the maximum value of 14.29.

The results of statistical tests on research data carried out using multiple linear regression with Ordinary Least Square basis show that:

IR = 301,592 + 1,320 IRD - 2,354 ERD + 0,110 InvRD + 3,208 InvAtt - 21,076 OfferingSize – 0,208 Age - 2,995 FirmSize+ e……………..…………………………………(Equation 2)

The model has been tested classical assumptions. The classical assumption test was carried out to ensure the data was normally distributed, free of multicollinearity and heteroscedasticity. So, it can conclude that the regression model with Ordinary Least Square has become the Best Linear Unbiased Estimation (BLUE) model.

Table 5 shows the results of the classical assumption test. The usual test was carried out to obtain statistical confidence that the regression model has error terms that are usually distributed. The Normality test was carried out using the Kolmogorov-Smirnov Z test. The statistical test result shows a Kolmogorov- Smirnov Z value of 1.228 with a p-value of 0.098, more significant than 0.05 as the cut-off value. Therefore, it concludes that the research regression model has error terms that are usually distributed.

Hereafter, the absence of multicollinearity is assumed in this research model, which means that the independent variables in this research are not highly correlated. This research model is free from multicollinearity. This conclusion is based on the Variance Inflation Factor value (VIF) of the statistical test result of each research variable, which is less than the cut-off value of 10. the Tolerance of each research variable must meet the requirement of a value greater than 0.1.

The Glejser Test is used to detect the presence or absence of heteroscedasticity. The basis for decision making in this test is if the significance value is more significant

than 0.05, it can be concluded that there is no heteroscedasticity. Table 5 illustrates that the Glejser Test result for all research variables shows a significance value greater than 0.05. The regression model of this research is no heteroscedasticity.

Based on the classical assumption test results, it can be concluded that the regression model of this research has become the Best Linear Unbiased Estimation (BLUE) model.

Table 5. Statistics Test Result

Variable	Ordinary Least Square			Multicollinearity		Heteroscedasticity	
	B	Nilai t	Sig.	VIF	Tolerance	Nilai t	Sig.
Constanta	301,592	5,069	0,000				
IRD	1,320	1,247	0,214	1,453	0,688	0,068	0,946
ERD	-2,354	-1,301	0,195	1,486	0,673	-1,939	0,0540
InvRD	0,110	0,052	0,959	1,417	0,706	1,344	0,181
InvAtt	3,208	2,731	0,007	1,030	0,970	-0,912	0,363
OfferingSize	-21,076	-3,567	0,000	1,481	0,675	-1,777	0,077
Age	-0,208	-1,031	0,304	1,066	0,939	0,953	0342
FirmSize	-2,995	-0,682	0,496	1,411	0,709	0,675	0,501
	Kolmogorov-Smirnov Z					1,228	
	Asymp. Sig.					0,098	
	F Value					5,776	
	F Value Sig.					0,000	
	Adj R²					0,138	

The goodness of the Fit Model Test

The Goodness of Fit Test is used to test the ability of the data to predict a series of future observations. The Goodness of Fit Test to the regression model can be seen from the significance of the F Test value and the Adjusted R^2 value. Based on the results of the regression test with an F value of 5.776 with a significance level of 0.000 shows that the independent variables in this study consist of disclosure of internal risk, disclosure of external risk, disclosure of investment risk, and investor attention can explain and predict variations in the initial return variable. The adjusted R^2 value of 0.138 can be interpreted that the magnitude of the variable ability of internal risk disclosure, external risk disclosure, investment risk disclosure, and investor attention in explaining and predicting initial return variations is 13.8%. This research model has a statistical explanation test better than the research model from Kim et al. (2019), which has an adjusted R^2 of 3.8%, or the research model from Wasiuzzaman et al. (2018), which has an adjusted R^2 of 9.1%. In this study, the adjusted R^2 value increased due to combining the two models. To explain the factors that affect IPO initial return, namely a model based on the information asymmetry theory and a model based on behavioral finance theory. The behavior of investors in the stock pricing is not only influenced by rational factors but is also influenced by irrational factors, namely the psychological condition of investors. Information asymmetric theory is used to explain the effect of the rational behavior of investors on the IPO initial return. The stock pricing of the IPO companies is determined by the amount and content of information disclosed by the companies. Meanwhile, the behavioral theory of finance is used to explain irrational behavior in-stock pricing of IPO companies. It is the contribution of this research.

Effect of Disclosure of Internal Risk Factors on Initial Return

The results of statistical tests on the effect of the disclosure of internal risk factors on the initial return of IPOs can be seen in table 5. It is known that the coefficient of the influence of the Disclosure of the Internal Risk Factors on the Initial Return of the Initial Public Offerings (IPOs) is 1.247, with a significance level of the p-value of 0.214. The results of statistical testing about the effect of the Internal Risk Factors Disclosure on Initial Return show that internal risk disclosure does not affect the initial return of the companies conducting IPOs Initial Public Offerings. The result of this study state that the exposure of the internal risk factors in the prospectus is boilerplate information, so the disclosure of internal risk factors does not affect investor perceptions.

Internal Risk is defined as the risk faced by the company due to the company's internal factors (Wasiuzzaman et al., 2018). There is an information asymmetry between the issuer as an inside party and the investor as an outside party. In investors' view, the amount of information about internal factors and risk exposure caused by the company's failure to manage internal risk factors is enormous. Issuers have more details on the internal risk factors than investors. Investors or potential investors perceive that disclosures about internal risk factors are only complementary information. Disclosure of internal risk factors in the prospectus does not add to the benefits of information for investors. Disclosure of information that is not known to investors will be able to influence investor perceptions with the assumption that managers disclose risks that are beneficial to investors (Kravet & Muslu, 2012).

As shown in table 2, the amount of disclosure of internal risk factors is too small. There are still many companies that do not disclose the company's internal risks factors. A few companies disclose internal risk factors on indicators 1, 3, 4, 5, 6, 14, 15, 16, 17, 18, and 19 are low. More than half of the research sample does not disclose these indicators in risk. The explanation can be concluded that of the 19 hands set to measure the internal risk disclosure variable, only eight indicators of 19 indicators of disclosure of internal risk factors are frequently disclosed by the IPOs companies.

The results of this study are in line with research conducted by Wasiuzzaman et al. (2018), Abdou & Dicle (2007), and Murugesu & Santhapparaj (2010). Wasiuzzaman (2018) stated that managers almost do not provide meaningful information to investors and do not reduce information asymmetry between issuers and investors so that internal risk disclosure does not have a significant impact on initial returns. The inadequacy of regulation related to risk disclosures may result in different numbers of disclosures among companies; indeed, the exposure may be insufficient, ineffective, and not relevant to investors in investment decision-making. Furthermore, Murugesu & Santhapparaj (2010) also said that disclosing internal risk factors in the prospectus does not reflect the offer price and initial market return.

Effect of External Risk Disclosure on Initial Return

The variable coefficient value of the influence of external risk disclosure on initial return is -1.301 with a significance value of p-value of 0.195 (see Table 5). The statistical test results show that the disclosure of external risk does not affect the initial return. Disclosure of external threats in the prospectus is risk factors resulting from the external environment and not within the company's control, such as competition, government policies, legislation, natural disasters, and the economic climate. This study explains that the disclosure of external risk does not provide additional information for investors in making investment decisions because there are still many companies that do not disclose the company's internal risks. These results can be seen in Table 3. The disclosure of external risk in indicators 1, 7, 8, and 10 shows a low

number. More than half of the research sample does not disclose these indicators in the company's business risk.

The results of this study are consistent with research conducted by Wasiuzzaman et al. (2018), Murugesu & Santhapparaj (2010), and Abdou & Dicle (2007). It states that the disclosure of external risk does not affect the initial return of the IPO. It is due to the inability of investors to analyze external risk so that exposure is considered "boilerplate" and almost does not provide information to investors on the Malaysian Stock Exchange.

Effect of Disclosure of Investment Risk on Initial Return

The results of statistical testing on the effect of the disclosure of the investment risk factors on initial return show the magnitude of the variable coefficient of 0.052 with a significance value of p of 0.959 (see Table 5). These results state that investment risk disclosure does not affect the initial return. Disclosure of investment risk refers to the risks faced by shareholders, such as non-payment of dividends, dilution of shares, and illiquid trading of shares on the Exchange. Disclosure of investment risk in the prospectus does not affect investors' perceptions. Disclosure of investment risk in the prospectus does not add to the benefits of information for investors because there are still many companies that do not disclose the company's investment risk.

From table 4, it is known that few companies disclose investment risk in indicators 1 and 3. More than half of the research sample does not tell these indicators in the company's business risk. Only 36 companies disclose indicator 1, and 42 companies disclose indicator three on the investment risk disclosure variable. It explains that the investment risk disclosure does not affect the initial return. With the low amount of information disclosure about investment risk, investors pay less attention to this information in their decision-making. The result of this study is consistent with research by Kravet & Muslu (2012) and Chambell et al. (2014), which state that risk disclosure may only be boilerplate, so investment risk disclosure does not affect investor perceptions.

Thus, the results of this study state that the disclosure of the risks factors, specifically internal risk disclosure, external risk disclosure, and investment risk disclosure, do not affect IPO's initial returns. In the Signal Theory framework, it is explained that if risk disclosure does not affect initial returns, it can be concluded that the relationship between Risk Disclosure and price formation at the time of the initial public offering is boilerplate (Campbell et al., 2014; Kravet & Muslu, 2012; Wasiuzzaman et al., 2018). Managers have more information about the company than their investors, but managers tend to have vested interests that lead to bias. Managers tend to disclose favorable information and avoid disclosing unfavorable information. However, since risk disclosure is mandatory and the aim is to convey information related to the company's adverse risks, managers will tend to provide vague and meaningless risk disclosures that can be used to catalog all possible risks and uncertainties. Still, the disclosure is not relevant to the investors, so the risk disclosures reveal previously unknown risk factors and contingencies do not change investors' perception of risk. Risk disclosures that are too vague and generic do not provide meaningful information to investors. They do not reduce information asymmetry between issuers and investors so that they do not significantly impact the IPO's initial returns.

Kravet & Muslu (2012) also argues that risk disclosure can reveal unknown risk factors and contingencies that will affect investors' risk perceptions. Assuming

managers disclose significant risks, the disclosure will not be informative for investors if the risks disclosed are already known to the market, resulting in very little or no information on investors' ex-ante beliefs about company risk (Campbell et al., 2014).

Risk disclosure informs investors of the risks faced by the issuer company and the ways taken by the company to mitigate the risks it faces. This disclosure will reduce information asymmetry between issuers and investors and between informed and uninformed investors. Unfortunately, in the event of a self-presentational bias on the information disclosed by the company conducting the IPO, investors tend to react negatively to the disclosure of information deemed by investors to have harmful content. At the time of the IPO, self-presentation bias can be defined as excessive management impressions caused by the interests of the IPO companies to influence an investor to make decisions that are beneficial to the IPO companies. Disclosure of information that contains self-presentation bias will be read as a negative signal and considered terrible news. Therefore issuers tend to ignore this information and do not disclose this information or the importance of negative results or attribute the failures it faces to external factors such as the general business climate, inflation, market prices, and government policies. Managers can use defensive explanatory devices such as excuse, justification, and causality denial to "minimize the apparent failure of negatively perceived performance outcomes (Aerts & Cheng, 2011).

Disclosures of harmful or undesirable qualities, however, depend on what they perceive to reflect and how they conform to investors' expectations and beliefs (Scott & Lyman, 1968). If harmful or undesirable quality disclosures reflect a lack of managerial control, investors should expect higher returns to compensate for the risks taken. However, suppose exposure is intended to project an image of authority, indicating that management can rationalize these short-term adverse developments and correct them in the future. It signifies competence, the ability to plan and implement change in advance, adverse events, and thus future survival (Aerts & Cheng, 2011).

Signaling theory suggests that the level of risk disclosure can be perceived either positively or negatively by investors depending on the circumstances, and this will ultimately affect the initial return on the IPO. If risk disclosure is perceived positively (negatively) by investors, then lower (higher) compensation is expected and, therefore, lower (higher) returns. However, if the disclosed risks do not provide relevant information and investors are unable to extract meaningful information from these disclosures, then a non-significant relationship between risk disclosure and early IPO returns may exist (Song et al., 2014; Chang & Ho, 2015; Abdou & Dicle, 2007; Gumanti et al., 2017).

Signaling theory explains that if investors obtain information in the same amount of information and acquisition time, it will not lead to information asymmetry. If there is no information asymmetry, there will be no misprice. Wasiuzzaman et al. (2018) stated that managers almost do not provide meaningful information to investors and do not reduce information asymmetry between issuers and investors so that internal risk disclosure does not have a significant impact on initial returns. If risk disclosure is perceived positively (negatively) by investors, then lower (higher) compensation is expected and, therefore, lower (higher) returns. However, if the risks disclosed do not provide relevant information and investors cannot extract meaningful information from these disclosures. An insignificant relationship between the risk disclosures and the initial return on IPOs may exist.

Effect of Investor Attention on Initial Return

Another finding from this study is that investor attention affects initial return. In the multiple regression calculation results, the variable coefficient of the impact of

investor attention on initial return is positive 2.731 with a significance value of 0.007 (see Table 5). It shows that if investor attention is excellent, which means that the level of enthusiasm of investors for the stock is high, then the initial stock return tends to be increased.

If the stock gets an abnormal level of investor attention before the IPO, investors will get more profits on the first day of the IPO (initial return). Investor attention is the standard behavior of investors in anticipating price developments in the market (Tversky & Kahneman, 1986; Tsukioka et al., 2018; Tan & Tas, 2019; Ritter, 2003; Preis et al., 2013; Lou, 2014; Kim et al., 2019; Goddard et al., 2015; Bijl et al., 2016). Kim et al. (2019) show that investor attention is closely related to trading volume and stock prices. Stocks that receive greater attention tend to increase their stock trading than stocks that receive less investor attention(Aouadi et al., 2013; Da et al., 2011; Da et al., 2015).

Hereafter, Barber & Odean (2008) revealed that attention affects decision-making by investors to buy shares. Investors who choose to invest in shares of many companies will have difficulty deciding which shares to buy, so investors are more likely to purchase shares that get the typical investor's attention.

The behavioral theory of Finance explains investor behavior, and its role in investment decision-making is influenced by sociology, psychology, and finance (Ricciardi & Simon, 2000). Financial behavior is various behaviors about economic market changes, individual perceptions, and conditions that affect investment or financial decision-making (Bikas & Jureviciene, 2013). Investors tend to buy particular types of stocks that get the attention of the largest of investors. This statement is based on the assumption that investors face many alternative investment decisions to buying many stores in the capital market. Investors have to decide in a limited time (Barber & Odean, 2008). Based on behavioral finance theory, investors in buying shares reason, but investors are influenced by irrational factors that impact increasing investor attention. Psychological and emotional factors such as panic, pressure from outsiders felt by investors, or naivety also shape investor behavior in making decisions. It happens a lot in the capital market, which is in the form of a semi-strong market. In the semi-strong form of the capital market, many naive investors make decisions based on irrational behavior. Inexperienced investors make decisions by following the behavior of investors who are considered sophisticated investors. Meanwhile, sophisticated investors will decide based on the relationship between risk and expected return. The information disclosed by the company will be a commodity that is highly considered in decision-making.

Hence, Yung & Nafar (2017) stated that increased attention increases purchases. Abnormal investor attention has an extreme positive predictive power for underpricing. An initial return will occur if the stock gets a higher level of uncommon investor attention before the IPO (Yan et al., 2019). The higher the investor's attention, there is a tendency to increase the IPO initial return (Han et al., 2018; Lou, 2014; Varkman & Kristoufek, 2015; Tsukioka et al., 2018; Da et al., 2015; Da et al., 2011; Goddard et al., 2015; Clarke et al., 2016).

CONCLUSION

This study aims to obtain empirical evidence of the effect of risk disclosure and investor attention on the initial return of Indonesian companies conducting IPOs in the period 2011-to 2018. This research used purposive judgment sampling as a sampling method. The sample size used in this study was 210 firms. Data were analyzed using

multiple linear regression with an Ordinary Least Square basis. The results of this study indicate that risk factors disclosed in the prospectus, which includes internal risk disclosure, external risk disclosure, and investment risk disclosure, cannot become a signal that investors respond to in the formation of stock prices in the primary market. Disclosure of risk becomes "boilerplate ."Investors ignore disclosure of chance in determining the cost of companies that are IPOs. It is reasonable to suspect that this is due to IPO companies' low level of risk disclosure. The risk disclosures made by companies conducting IPOs are still below investors' expectations as a sufficient amount of information, so investors are skeptical of this risk disclosure. Investors suspect that the managers of issuer companies tend to sort and select the information that is considered beneficial to their interests so that the information disclosed tends to be biased.

In addition, the results of this study indicate that the higher the level of abnormal investor attention in the period before the IPO, the tendency for investors have to earn more profits on the first day of the IPO (initial return). In making decisions, many investors are irrational. Information is not an essential determinant in investor decision-making. Psychological and emotional factors greatly influence investors in making decisions on IPO companies.

The limitation of this research is that there are no intervening or moderating variables in testing the effect of risk disclosure and investors' attention on initial return. Based on the study's limitations, the recommendations for further research are to add independent variables, intervening variables, or moderating variables in initial return research.

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