The Effect of Risks Factor Disclosure on Initial Returns

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Abstract: This study uses data from 77 issuers listed on the Indonesia Stock Exchange (BEI) 2017-2019, to determine the effect of risks factor disclosure on initial returns. By using the SPSS 22 method, the results show that the variables of business risk, general risk, and investor risk have a significant effect on initial returns, while main risk does not have a significant effect on initial returns.

Keywords: Main Risk, Business Risk, General Risk, Investor Risk, Company Age, IPO Offer Size, Initial Return.

1. INTRODUCTION

In order to develop the company's business, there are various ways, one of which is to expand by selling the company's shares to the public. Company development is an effort to anticipate a variety of increasingly sharp competition in an increasingly global market like today. This effort is a separate problem for each company, because it involves the fulfillment of the required funds. Shares of textile and garment issuers listed on the Indonesia Stock Exchange (IDX) in the period January 2 to September 30 2019, data on market price movements show that the shares of PT Asia Pacific Fibers Tbk (POLY) have collapsed 54.42%, PT Indo-Rama Synthetics Tbk(INDR) fell 38.97%, PT Tifico Fiber Indonesia Tbk (TFCO) fell 36.54%, PT Asia Pacific Investama Tbk (MYTX) fell 35.58%, and PT Nusantara Inti Corpora Tbk (UNIT) fell 25.58% . The reason is due to the influx of imports in the upstream product sector and increased competition for the export market. PGAS shares have dropped -75.4% to the lowest price of Rp. 605. There are two things that have caused many investors to sell PGAS shares. The first reason is that PGAS 'performance is classified as unhealthy and inefficient. The second reason relates to the government's plan through the Ministry of BUMN and the Ministry of Energy and Mineral Resources to reduce gas prices.

The purpose of this study was to find answers to the following questions: (1) Does the main risk affect the initial return? (2) Does business risk affect initial return? (3) Does business risk affect initial return? (4) Does investor risk affect initial return?

Researchers used the agency theory ex-ante uncertainty model to determine the effect of risk factor disclosure on initial returns. Main risk, business risk, general risk and investor risk as independent variables. Initial return as the dependent variable. IPO offer size and company age as control variables.

2. RESEARCH BACKGROUND AND HYPOTHESIS DEVELOPMENT

Danny Sanjaya (2020), Wasiuzzaman (2018) and Gumanti (2017) explain that there is a positive result between the total number of risk factors and the initial return. Research conducted by Ding (2016) explains that there is no significant effect between the number of business risk factors and initial returns. Research conducted by Farahnaz (2016) explains that there is a positive influence between risk factor disclosure and regulation in Malaysia. Research conducted by Herawati (2016) explains that there is a significant influence between risk factors and initial returns. The research conducted by Asih (2020) explains the results of the study found that partially EVA and Net Profit Margin have a positive and significant effect on stock returns, while the current ratio, debt-to equity ratio and) earnings per share do not have and simultaneously all the variables that influence stock returns. Stock returns.

H1 : Main Risk Have Significant Effects on Initial Returns

According to Moles (2011) the main risk they create is operational, which emerges from the execution of a company's business functions. According to POJK number 8 / POJK.04 / 2017 (2017) the main risks have a significant effect on the business continuity of the issuer. Supported by research conducted by Wasiuzzaman (2018) risk disclosure is found to be highly significant in influencing initial returns. And research conducted by Gumanti (2017) number of risk factors is found to be positively related to the level of average positive initial returns (under pricing).

H2 : Business Risk Has Significant Impact on Initial Return

According to Brigham and Houston (2006) business risk is the risk associated with the projections of a company's future return on assets (ROA), or return on equity (ROE) if the company uses no debt. According to Joni and Lina (2010), business risk is the risk that a company faces when the company carries out its operational activities, namely the company's inability to finance its operational activities. Supported by research conducted by Wasiuzzaman (2018) risk disclosure is found to be highly significant in influencing initial returns. And research conducted by Gumanti (2017) number of risk factors is found to be positively related to the level of average positive initial returns (underpricing).

H3 : General Risk Have a Significant Effect on Initial Returns

According to Labombang (2011) risk is a variation of things that may occur naturally or the possibility of events outside of the expected ones that threaten property profits and financial benefits due to the dangers that occur. Supported by research conducted by Wasiuzzaman (2018) Risk disclosure is found to be highly significant in influencing initial returns. And research conducted by Gumanti (2017) number of risk factors is found to be positively related to the level of average positive initial returns (underpricing).

H4 : Investor Risk Has a Significant Effect on Initial Return

According to Gitman (2003) risk is the chance of financial loss or more formally, the variable of return associated with a given assets. According to Tandelilin (2001) risk is the possible difference between the actual return and the expected return. The greater the probability of the difference, the greater the risk of the investment. Supported by research conducted by Wasiuzzaman (2018) Risk disclosure is found to be highly significant in influencing initial returns. And research conducted by Gumanti (2017) number of risk factors is found to be positively related to the level of average positive initial returns (underpricing).

3. METHODOLOGY, DATA AND RESEARCH MODELS

3.1 Methodology

This research is a quantitative study by conducting empirical studies on companies that carry out IPOs listed on the Indonesia Stock Exchange (IDX) during the 2017-2019 period.

3.2 Data Analysis

The sampling technique in this study used the purposive sampling method, which a sample is determined by the researcher based on certain criteria to obtain a representative sample. Of the 149 companies that conducted IPOs in the 2017-2019 period, a sample of 77 companies was selected according to the criteria for the purpose of the study.

3.3 Models

The variable in this study is the initial return as the dependent variable, while the main risk, business risk, general risk, and investor risk are the independent variables. Company age and IPO offer size as control variables. The operational definition of variables can be seen in the following table:

	Variabel	Indicator	Measurement Scale
	Initial Return (Y)	$Initial\ Return\ (IR) = \frac{Closing\ price - Offering\ price}{Offering\ price}$	Ratio
	Main Risk (X1)	Use a scale of 1 if disclosed and explained, and a scale of 0 if not disclosed and explained	Ratio
	Business Risk (X2)	Competition, investment or corporate action, failure of issuers to comply with applicable laws and regulations in their industry, changes in technology, scarcity of resources and supply of raw materials using a scale of 1 if disclosed and explained, and scale 0 if not disclosed and explained	Ratio
	General Risk (X3)	Macro or global economic conditions, changes in foreign exchange rates, compliance with applicable laws and regulations related to the business sector of the issuer, lawsuits or lawsuits, government activities and provisions of other countries or international regulations use a scale of 1 if disclosed and explained, and on a scale of 0 if not disclosed and explained	Ratio
	Investor Risk (X4)	Use a scale of 1 if disclosed and explained, and a scale of 0 if not disclosed and explained	Ratio
	Company Age (Z1)	The logarithm is added by one with the number of years since the issuer was founded	Ratio
	IPO Offer Size (Z2)	Calculating the IPO offer size based on the logarithm of the number of shares offered at the IPO.	Ratio

Research Model:

$$\mathbf{IRD_{it} = \alpha + \beta_1 RUT_{it} + \beta_2 RUS_{it} + \beta_3 RUM_{it} + \beta_4 RIV_{it} + \beta_5 UP_{it} + \ \beta_6 IOS_{it} + \varepsilon}$$

Which: α: Constant; β1, β2: Coefficient; ε: Error; i: Enterprise I; t: Year t

4. RESEARCH RESULTS

4.1 Descriptive Data

Table 4.1 Descriptive statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Main Risk	77	,00	1,00	,7662	,42600
Business Risk	77	,00	1,00	,5368	,26021
General Risk	77	,00	1,00	,6675	,28212
Investor Risk	77	,00	1,00	,9221	,26981
Company Age	77	,00	1,81	1,1047	,35463
Offer Size	77	7,35	9,46	8,6614	,43594
Initial Return	77	,01	2,02	,8953	,60681
Valid N (Listwise)	77				

Based on table 4.1 the main risk variable (X1) obtained a mean of 0.766, a maximum value of 1, a minimum value of 0, and a standard deviation of 0.4260. Business risk (X2) obtained a mean of 0.536, a maximum value of 1, a minimum value of 0, and a standard deviation of 0.2602. General risk (X3) obtained a mean of 0.667, a maximum value of 1, a minimum value of 0, and a standard deviation of 0.2821. Investor risk (X4) obtained a mean of 0.922, a maximum value of 1, a minimum value of 0, and a standard deviation of 0.2698. Company age (Z1) obtained a mean of 1.104, a maximum value of 1.81 found in companies with the ITIC stock code, a minimum value of 0 found in companies with stock code POLA, and a standard deviation of 0.3546. The IPO Offer Size (Z2) obtained a mean of 8.661, a maximum value of 9.46 in companies with the WEGE stock code, a minimum value of 7.35 in companies with the MAPB stock code, and a standard deviation of 0.4359. Initial return (Y) obtained a mean of 0.895, a maximum value of 2.02 found in companies with the stock code FOOD, a minimum value of 0.01 found in companies with IPCC stock codes, and a standard deviation of 0.6068.

4.2 Regression Model Results

The results of the normality test show that the Sig value is 0.178. Value 0.178> 0.05, the residual data is normally distributed. The multicollinearity test results show that the VIF value is less than 10 and the tolerance value is more than 0.1, so there is no multicollinearity problem in the regression equation. The autocorrelation test results show that the Durbin-Watson Satt (d) value is 1.981, where the number of samples (n) is 77 and the number of independent variables (k) is 4. So the Durbin-Watson table shows the value of dL = 1.5228, the value of dU = 1.7407 and the value 4-dU = 2.2593. the results from the Durbin-Watson table above, the DW value of 1.981 is greater than the dU value of 1.7407 and the 4-dU value of 2.2593 is greater than the dU value of 1.7407 which means that in this study there is no autocorrelation. The results of the heteroscedasticity test show that the probability value of the independent variable> 0.05 means that H0 is accepted, meaning that there is no heteroscedasticity.

4.3 Discussion results

Through research, only 59 out of 77 if it is reduced to 77% of companies that disclose the main risk. The results of this one hypothesis study are different from those predicted. Hypothesis one expects a positive relationship in accordance with the ex-ante uncertainty model theory which explains that the higher the risk or uncerty that exists in the issuer, the higher the initial rate of return. The insignificant research results reveal that the disclosure of the main risk does not increase the uncertainty, this shows that the main risk does not lead to an uncertainty over the occurrence of events in a certain time period. This event cannot cause a small loss or a large loss that affects the survival of an organization.

Through research, only 76 out of 77, if the percentage is 99% of companies that disclose business risks. The results of this second hypothesis research are in accordance with those predicted, the second hypothesis is that there is a significant positive effect between the disclosure of business risk and the IPO initial return. The positive relationship is in accordance with the theory in the ex-ante uncertainty model, which explains that the higher the risk or uncerty that exists in an issuer, the higher the initial rate of return. These results explain that the business risk disclosure variables contained in the prospectus in Indonesia have an effect on the uncertainty felt by investors.

Through research, only 75 out of 77 if this is reduced to 97% of companies that disclose general risks. The results of this research on the fourth hypothesis, the ex-ante uncertainty model of agency theory, explain that the higher the uncertainty, the higher the level of initial return you will get. With the result of the negative relationship between general risk disclosures on the prospectus, risk disclosure does not increase uncertainty but on the contrary to reduce information asymmetry by increasing the quantity of disclosures available to the public..

Through the research, only 71 out of 77 if this is reduced to 92% of companies that disclose investor risk. The results of this fourth hypothesis research are in accordance with what was predicted. Hypothesis four is that there is a positive influence between the disclosure of investor risk and initial returns. Disclosure of risk for investors shows that this variable is the right variable in explaining the ex-ante uncertainty model or influencing the uncertainty that exists in investors..

5. CONCLUSIONS

The factors that affect the initial return in this study show that business risk and investor risk have a positive effect on core return. A positive relationship is in accordance with the theory in the ex-ante uncertainty model which explains that the higher the risk or uncertiness that exists in an issuer, the higher it is. initial return rate. These results explain that the business risk disclosure variables contained in the prospectus in Indonesia have an effect on the uncertainty felt by investors.

General risk has a negative effect on initial returns. The agency theory of the ex-ante uncertainty model explains that the higher the uncertainty, the higher the initial rate of return you will get. With the result of the negative relationship between general risk disclosures in the prospectus, risk disclosure does not increase uncertainty but on the contrary to reduce information asymmetry by increasing the quantity of disclosures available to the public.

The main risk has no effect on initial returns. the main risk does not lead to an uncertainty over the occurrence of events in a certain period of time. This event cannot cause a small loss or a large loss that affects the survival of an organization.

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