








# “The impact of risk factor disclosure on the initial return of IPO companies amidst a pandemic”

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# THE IMPACT OF RISK FACTOR DISCLOSURE ON THE INITIAL RETURN OF IPO COMPANIES AMIDST A PANDEMIC

## Abstract

The capital market has increasingly become a pivotal avenue for enterprises seeking additional capital for expansion or operational enhancements. In raising funds through an Initial Public Offering (IPO), the company must publish its risk disclosure in the prospectus. Therefore, this study aims to investigate the impact of risk disclosure on the initial return of Indonesian companies undergoing IPOs during the pandemic. Using data from 136 out of 164 companies that went public between 2020 and 2022, sourced from the Indonesian Stock Exchange and company websites, the study employs the ordinary least squares method to estimate the impact of risk disclosures on initial returns during the pandemic. The findings reveal that external and overall risk disclosures significantly influence IPO initial returns. Specifically, Indonesian investors were particularly attentive to external and overall risks when evaluating IPOs during the pandemic. This heightened concern suggests that comprehensive risk disclosure can affect investor behavior and financial outcomes for companies going public in uncertain times, highlighting the importance of transparency in risk communication to support investor decision-making and market stability.

## Keywords

risk, external, internal, return, IPO, pandemic, investor, behavior

## JEL Classification

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## INTRODUCTION

Capital markets have become crucial for companies seeking financing, including during extraordinary circumstances like the coronavirus pandemic, with the Indonesian Stock Exchange (IDX) maintaining a steady number of IPOs over the past five years. This consistent IPO activity underscores its role as a key funding method, helping companies access additional funds for working capital and debt repayment, which drives business growth and profitability, despite challenges like competition and resource management.

Capital markets globally have become vital for companies in raising funds either for business expansion or capital restructuring, especially during extraordinary circumstances like the coronavirus pandemic. Initial public offerings (IPOs) on the Indonesian Stock Exchange (IDX) have remained steady over the past five years, underscoring their role as a key funding method for various business sectors. Companies that go public can access additional funds for working capital and debt repayment, promoting business growth and profitability despite challenges like competition and resource management. The government mandates a prospectus for IPOs, detailing company profiles, financial information, and risks. Still, in Indonesia, risk disclosure during IPOs

lacks specific guidelines, leading to inconsistent risk reporting and potentially undermining investor confidence. Developing clearer guidelines could enhance transparency, ensure uniform risk reporting, and improve investor trust and market efficiency. Additionally, the phenomenon of initial returns from IPOs, driven by information asymmetry and investor behavior, remains an area of interest for researchers, highlighting the risks associated with information gaps, macroeconomic factors, and investor actions.

This research significantly contributes to understanding the impact of risk disclosure on the initial return of IPOs. By demonstrating how the disclosure of risks, particularly external and overall risks, influences IPO performance, the study offers valuable insights for corporate management in developing more comprehensive risk disclosure documents. This information aids investors in making more informed investment decisions and managing their expectations regarding new stocks. Additionally, the novelty of research enriches financial literature with a focus on the Indonesian capital market during the pandemic and guides policymakers and market regulators in enhancing transparency and investor protection. Identifying risk factors that affect initial returns helps explain variations in IPO performance and offers a foundation for future studies to explore additional influential factors. The study's objective was to investigate the impact of risk disclosure on the initial return of companies undergoing IPOs during the Indonesian pandemic, finding that external and overall risk disclosures significantly impacted initial returns. This suggests that greater transparency regarding these risks can influence investor behavior and the financial outcomes of companies going public during uncertain times, benefiting firms, policymakers, and investors alike.

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## 1. LITERATURE REVIEW

The core idea of the information asymmetry theory is that it explains why information imbalances or non-transmissions occur among business operators collectively. Knowledge asymmetry is a concept that suggests some individuals possess specific knowledge that is not available to everyone. The IPO environment has further highlighted differences in investor behavior due to varying degrees of information asymmetry. This theory underscores the importance of addressing information gaps to ensure a more equitable and transparent investment environment (Wasiuzzaman et al., 2018; Yusup, 2022).

Through IPOs, investors' underpricing and overpricing are caused by these disparities in information levels. Underpricing shares are preferred by investor groups with access to and processing relevant information. Then, because of a lack of knowledge or because investors work with IPO companies, groups of investors are compelled to execute transactions with expected preferences, which leads to mistakes in share selection owing to overpricing (Afik & Makarova, 2021; Fulghieri et al., 2020; Zou, Li, et al., 2020).

However, businesses holding IPOs are often uncertain about which investor groups are well-in-

formed and which are not. Therefore, IPO firms must provide affirmative details, such as those from underwriters and audit institutions. Sharing this information can enhance the firm's reputation and serve as a signal to investors, encouraging them to buy shares in the IPO company. This approach is supported by signaling theory, which explains how information asymmetries between investors and IPO firms can influence investor behavior and market outcomes (Bernstein et al., 2017; Liu et al., 2020; Tao-Schuchardt et al., 2023).

Signaling theory seeks to elucidate how information leaks in various market environments, offering a framework for understanding how information is publicly conveyed. The theory provides valuable guidelines for assessing the purpose, effectiveness, and overall performance of signals within a firm. By addressing and mitigating information asymmetry related to the signaling object and ensuring that information is accessible to all stakeholders, signaling theory aims to enhance decision-making processes. Researchers have highlighted that signaling theory is particularly useful in explaining information asymmetry in the stock evaluation process by external parties, such as investors, during an IPO. This perspective aligns with earlier claims that signal theory effectively addresses the information gaps encountered during IPO partici-

pation, providing a comprehensive explanation for the observed asymmetry in the market (Connelly et al., 2011; Liu et al., 2020; Plummer et al., 2016; Spence, 1974; Stiglitz, 2002; Svetek, 2022).

Initial return (IR) is a prevalent concept in the context of Initial Public Offerings (IPOs). IR refers to the method of tracking the price changes of a company's stock at the time of its IPO and during the first trading day following the public offering. This phenomenon has become a focal point of interest for investors engaged in transactions during the IPO period and for researchers studying its impact across different global markets. The significance of IR lies in its ability to reflect the market's initial reaction to a newly listed company's stock, providing insights into investor sentiment and market dynamics shortly after the IPO (Habib & Ljungqvist, 1998; Mehmood et al., 2021; Yusup, 2022).

The initial return discussed is connected to the theories of information asymmetry and signaling, which consider various factors including the roles of underwriters and investors. These theories apply not only to regular IPOs but also suggest that during a pandemic, abnormal returns can occur on IPOs. This phenomenon has become a significant concern for investors active at the time, and it has also drawn the attention of researchers studying markets worldwide. This highlights the importance of understanding how information is distributed and perceived, especially under extraordinary circumstances, and underscores the broader implications for market behavior and investor decision-making during such periods (İlbasmış, 2023; Jamaani & Alidarous, 2019; Mehmood et al., 2021; Yusup, 2022; Cheng et al., 2020).

On the other hand, there is a prediction that during IPOs, information about investors, professionals, and previous employees may be dispersed, leading to the possibility of underpricing. This underpricing occurs due to the difference between the IPO price and the market price at the end of the period. This illustration indicates that the potential for underpricing was rather high during the IPOs, which enabled a significant initial return and consequently encouraged the researchers to carry out further studies (Afik & Makarova, 2021; De Oliveira et al., 2023; Gupta et al., 2021).

Companies conducting an IPO are required to submit a prospectus. One of the critical components of the prospectus is the risk disclosure factor, which is vital for company stakeholders, especially investors. According to the research, companies that utilize detailed risk disclosure factors (DRF) have better opportunities to attract investors. The risk disclosure factor highlights the types of risks, company value, and degree of information asymmetry, which can indicate a decrease in the company's level of uncertainty. Therefore, including comprehensive risk disclosures in the prospectus is crucial for enhancing investor confidence and ensuring a transparent investment environment. (Campbell et al., 2014; Elghaffar et al., 2019; Katti et al., 2023; Lyle et al., 2023).

Risk disclosure is not only a bundle, but also classified into several types: internal risk factors (DRI), external risk factors (DRE), and investment risk factors (DRV) in a prospectus. An organization faces internal risks due to internal factors, such as management, personnel, and operations. External risks, on the other hand, encompass information beyond a company's control, such as laws, policies, and economic climate cycles. Investment risk pertains to potential risks faced by IPO shareholders, such as the possibility of withheld dividends, IPO failure, or a reduction in ownership proportion. The presence of risks is indicated by values 1 and 0, depending on whether the corresponding risk items are identified or not. The extent of risk disclosed in the prospectus issued during IPOs determines the risk value (Gupta et al., 2021; R. Handayani & P. Handayani, 2022; Wasizzaman et al., 2018).

Previous research has demonstrated that risk disclosure affects the initial return of shares for firms going public. Risk assessment of the company should be carried out appropriately to provide investors with better information, potentially leading to anomalous returns during the short run of the IPOs. Awareness of these risks serves as a strategy for reducing unexpected events that influence the initial return. In the Brazilian capital market, further investigation into risk disclosure as a source of information about initial returns is necessary. This literature review employs published papers from 2000 to 2019 to highlight the existing relationship between risk exposure and

initial returns in the short run (Albuquerque et al., 2023; Grover et al., 2022; Grover & Bhullar, 2021; Guo et al., 2017).

The research indicates that companies actively pursuing threat management strategies can significantly reduce their initial return. A study using data from 131 Indian IPO companies from 2011 to 2019 concluded that internal risk was significantly lower than external risk. Further exploration of Indian markets found no correlation between threat exposure and initial return, particularly concerning qualitative risk. Quantitative risk exposure does not significantly affect initial return during IPOs. Additionally, the research examining 96 Malaysian IPOs revealed that investment risk is most significant for a company's initial return, whereas internal and external risk exposure is less significant (Filzen, 2015; Filzen et al., 2023; Grover et al., 2022; Gupta et al., 2021; Wasiuzzaman et al., 2018).

The research conducted on the Australian stock market indicates that an increase in quantitative risk does not significantly affect the internal rate of return during initial IPOs. However, an examination of data from 109 Indian IPO companies revealed no relationship between risk disclosure and initial return, specifically regarding qualitative risk. Similarly, a study in Indonesia, which covered 210 IPOs between 2011 and 2018, found that DRI (Disclosure of Risk Information), DRE (Disclosure of Risk Exposure), and DRV (Disclosure of Risk Variables) had little to no effect on initial return. Furthermore, using data from 290 IPOs between 1989 and 2005, it was concluded that these risk disclosures did not significantly influence initial returns. These findings suggest that the impact of risk disclosure on initial returns may vary significantly across different markets and types of risks. Therefore, investors and policymakers must consider market-specific factors and the nature of the

disclosed risks when assessing the potential benefits of risk disclosure in IPOs (Ding, 2016; Gupta et al., 2021; R. Handayani & P. Handayani, 2022).

Based on the information symmetry theory, signaling theory, and several previous empirical studies, the hypotheses proposed in this study are as follows:

*H1: The IR of IPOs influenced by internal risk disclosure.*

*H2: The IR of IPOs influenced by external risk disclosure*

*H3: The IR of IPOs influenced by investment risk disclosure.*

*H4: The IR of IPOs influenced by overall risk disclosure.*

## 2. DATA SOURCES AND METHODOLOGY

The data used in this study come from all companies that go public on the Indonesian stock market between 2020 and 2022 (the years of the COVID-19 pandemic) without making a distinction between big and small businesses. Data are accessed via the Indonesian capital market website, [www.idx.co.id](http://www.idx.co.id), which provides access to all IPO firm information. The study encompassed 164 companies that conducted initial public offerings (IPOs) through the prospectus documentation that was cross-sectional by time. All research data were obtained through the Indonesian Stock Exchange website and each company's website.

To gather 136 companies, the sampling technique used was purposive sampling with certain criteria. Based on the sample criteria above, 164 companies

**Table 1.** Sample criteria

Descriptions criteria	Total
The company will conduct an IPO in 2020-2022	164
It is not the same as an IPO overpricing company in 2020-2022	18
It is not the same as an IPO steady company in 2020-2022	2
The company with the financial statement cannot accessed	6
This does not company include IPOs that use foreign exchange	2
The number of samples used in research	136



are conducting initial public offerings (IPOs). Due to the use of purposive sampling, a few companies could not be included in the study sample. These companies include 18 overpricing, 2 with stable prices, 6 with no access to data, and 2 using foreign exchange. In other words, according to this study's findings, 28 businesses were classified as non-sampling and 136 businesses were classified as sampling, or having an initial return price that is underpricing.

In this study, the risk is an independent variable and the initial return is a dependent variable. Risk disclosure is evaluated in comparison to investment, internal, and external risks. For instance, two control variables measuring the company's size and workforce are used in this study. The purpose of utilizing this variable control is to bolster the ongoing research (Gupta et al., 2021; Wasiuzzaman et al., 2018). This study's variable adjustment makes use of both measuring qualitative and quantitative.

The present study used qualitative methods to assess internal risk disclosure (DRI), external risk disclosure (DRE), and investment risk disclosure (DRV). It may be argued that qualitative risk disclosure is represented by the overall quantity of risk disclosure (DRA). This is so that the indicator items that are accessible from each risk disclosure can be included in the calculation. Based on the number of indicators that have been used in the risk disclosure in the IPO company's prospectus, the value of the indicator item is calculated.

In this study, however, the dependent variable is the initial returns, which are quantified. The return or reward that investors get when they purchase stock securities is known as a return. The first return on the IPO's first day is chosen because this research is conducted in the setting of an initial public offering. The payout for variations in share prices after the price was first recorded at the time of issuance is known as the initial return (IR). In this research, referring to Gupta et al. (2021), Siwach et al. (2023), and Wasiuzzaman et al (2018), the initial return is calculated by dividing the share offering price at the IPO by the closing share price on the first day of the IPO, after which it is subtracted. This research uses two control variables: the compa-

ny's age (AGE) and its size (Size), both of which are quantified. This model of risk assessment uses the control variable as a means of assessing the impact of internal, external, and investment risk on the initial return (Gupta et al., 2021; Wasiuzzaman et al., 2018).

This study uses multiple linear regression analysis in the data analysis method. This is due to the cross-sectional data used in the research, which shows that companies only do initial public offerings (IPOs) once every year. Therefore, before performing the regression analysis, the analysis was conducted using a set of standard assumptions, which included matrix correlation, multicollinearity, and heteroscedasticity. The multicollinearity test in this study uses the Variable Inflation Factor (VIF) and independent variable correlation. Besides, the heteroscedasticity test used in this study employs the Breusch-Pagan (BP) test. Thus, based on the variable measures that were previously presented serve as the foundation for the empirical model in this research:

$$IR_{i,t} = \beta_0 + \beta_1 DRI_{i,t} + \beta_2 DRE_{i,t} + \beta_3 DRV_{i,t} + \beta_4 AGE_{i,t} + \beta_5 IPOSize_{i,t} + \varepsilon_{i,t}, \quad (1)$$

$$IR_{i,t} = \beta_0 + \beta_1 DRI_{i,t} + \beta_4 AGE_{i,t} + \beta_5 IPOSize + \varepsilon_{i,t}, \quad (2)$$

$$IR_{i,t} = \beta_0 + \beta_2 DRE_{i,t} + \beta_4 AGE_{i,t} + \beta_5 IPOSize_{i,t} + \varepsilon_{i,t}, \quad (3)$$

$$IR_{i,t} = \beta_0 + \beta_3 DRV_{i,t} + \beta_4 AGE_{i,t} + \beta_5 IPOSize_{i,t} + \varepsilon_{i,t}, \quad (4)$$

$$IR_{i,t} = \beta_0 + \beta_6 DRA_{i,t} + \beta_4 AGE_{i,t} + \beta_5 IPOSize + \varepsilon_{i,t}, \quad (5)$$

where the regression coefficients for each independent variable are  $\beta_1$ - $\beta_5$ ,  $\beta_0$  is a constant, and IR stands for initial return; Internal risk disclosure is called *DRI*. Disclosure of external risks (*DRE*) and investment risks (*DRV*) The entire amount of risk disclosure is known as *DRA*. *IPOSize* is the overall asset size of the company, and *AGE* is the company's age.

The first model is the model used to test all internal, external, and investment risk disclosure variables and control variables. The first model tested the impact of disclosure and control factors related to investment, external, and internal risk on initial return. The second model is used to estimate the impact of internal risk on the initial return using the control variable. The third model is used to estimate the impact of external risk on the initial return using the control variable. Tests of the impact of investment risk disclosure on initial return using control variables are conducted using the fourth model. The final model examines how beginning returns with control variables are impacted by overall risk, or the total level of information about internal, external, and investment risk, because the IPOs occur annually and last for three years. Thus, utilizing the models to be evaluated annually, the effect of risk disclosure DRI, DRE, DRV, and all DRA on IR on initial returns in companies undergoing IPOs is also examined annually in this research.

### 3. RESULTS AND DISCUSSION

The description of data gives a general summary of the risk disclosure issued at the IPO and then goes into more detail according to the years of the study (Table 2).

**Table 2.** Description of data

Variable	Mean	SD	Min	Max
IR	0.30	0.17	0.01	0.70
DRI	5	2.54	0	16
DRE	6	1.67	1	11
DRV	3	0.91	0	5
DRA	14	3.90	6	27
AGE	17	12.38	1	64
IPOSize	29.36	31.26	23.16	33.67

**Table 3.** Analysis of correlation

Panel A. Matrix correlation analysis							
Variables	IR	DRI	DRE	DRV	DRA	AGE	IPOSize
IR	1						
DRI	0.0474	1					
DRE	-0.1663*	0.3042***	1				
DRV	-0.0855	0.3599***	0.3096***	1			
DRA	0.1188	0.8491***	0.7022***	0.5961***	1		
AGE	0.0599	0.1361	0.1812**	0.0423	0.1786**	1	
IPOSize	0.0536	0.323***	0.3806***	0.2189**	0.4295***	0.1774**	1

Note: Significance level (\*, 10%), (\*\*, 5%), and (\*\*\*, 1%).

As an illustration, the average IR was 0.30, the lowest value was 0.01, and the highest This suggests that there was underpricing, as there was a positive initial return throughout the IPOs, and in a similar vein, underpricing will result from paying attention annually. However, it should be noted that while the average age of the firms that launched IPOs during the COVID-19 epidemic was 17, some of them had been in operation for as little as a year, and the oldest was 64 years old. Then, the average size of the firms that had IPOs was 29.36 logarithms, with the biggest size being 33.67 logarithms and the smallest being 23.16 logarithms for each company.

Additionally, the overall risk disclosure has a mean value of 14 items, with 27 being the lowest. Internal risk disclosure, on the other hand, includes an average of five disclosures, a maximum of sixteen items, and some that do not disclose. In contrast, the average number of elements in the external risk disclosure is six; the lowest number is one, and the greatest number is eleven. Ultimately, internal risk has an average disclosure of three elements, with the lowest risk disclosure of 0 and the maximum risk disclosure of 5. Many risk variables were not disclosed for each risk since each firm executing an IPO made them irrelevant (Wasiuzzaman et al., 2018).

Before going into the estimation of the ordinary least squares (OLS) regression model, this research covers the matrix correlation, multicollinearity, and heteroscedasticity. Table 3 shows a significant relationship between DRE and IR in a negative (-0.1663\*) direction, while the other independent variables, DRI, DRV, DRA, AGE, and IPOSize did not show a significant relationship. This can be interpreted as saying that in IPOs during the COVID-19 pandemic, external risk disclosure (DRE) can reduce IR.

Furthermore, the VIF test did not detect multicollinearity during this study, even though the results may be improved. This multicollinearity is caused by cross-sectional data in the OLS regression model, which more heavily requires heteroskedasticity correction (Wasiuzzaman et al., 2018). Heteroscedasticity and multicollinearity were not discovered in this study. The Breusch-Pagan (BP) test results were not significant at 5%, and none of the VIF scores averaged 10 (see Table 4). Besides, the relationship between the independent and dependent variables has a low relationship as shown in Table 3, where only external (DRE) significant relationship with the initial return.

The regression estimation findings based on the previously identified regression model statistics are explained in each of the five models of regression results (Table 4).

Based on Table 4, model 3 is a fit model with an F statistical probability value that is significant at 10%, in comparison, models 1, 2, 4, and 5 do not offer a fit regression model because of the probability of F statistic value is not significant at any level of significance. Model equation 1 explains the effect of internal, external, and investment risk disclosure (DRI, DRE, and DRV) on IPO initial returns. Equation 2 explains the effect of internal risk disclosure on IPO initial returns, equation 5 explains the effect of external risk disclosure (DRE) on IPO initial returns. Model 4 explains the effect of investment risk disclosure (DRV) on IPO initial returns, and equation 5 explains the effect of overall risk disclosure (DRA) on IPO initial returns. Besides, Table 4 shows that internal risk disclosure (DRI), investment risk (DRV), company age (AGE), and company size (Ln IPO SIZE) do not affect IPO initial returns in all models.

Based on the results of data analysis in Table 4, it can be analyzed that external risk disclosure (DRE) shows a negative and significant influ-

ence on IPO companies' initial returns during the pandemic (Model 1 and Model 3). In Models 1 and 3 the coefficients are  $-0.021^{**}$  and  $-0.023^{**}$  with 5 percent significance level. This means that IPO companies' lower external risk disclosure (DRE) can improve initial returns during the pandemic. Meanwhile, in Model 5, the overall risk disclosure (DRA) has a negative coefficient ( $-0.007^{**}$ ), which is significant at 5%, explaining that overall risk disclosure (DRA) can cause a decrease in initial returns for IPO companies during the pandemic. So, in this research, there are two (2) supported hypotheses, namely: *H2* that external risk disclosure influences initial return, and this result different with Wasiuzzaman et al. (2018) who indicate that the external risk is not significant for the initial return, and *H4* that overall risk disclosure influences initial return. This result is consistent with studies of Albuquerque et al. (2023), Filzen et al. (2023), Grover and Bhullar (2021), Wasiuzzaman et al. (2018) that found that overall risk exposure affected initial return. Meanwhile, *H1* and *H3* are not supported, and this is consistent with what was mentioned by Ding (2016); Gupta et al. (2021), R. Handayani and P. Handayani (2022) who stated that there is no effect of risk disclosure on initial returns.

The findings above show that external risk disclosure is important and very relevant for investors regarding IPO initial returns compared to internal risks and investments during the pandemic. This indicates that investors in Indonesia feel greater uncertainty, not in the company and investment, but in the company's external conditions which influence IPO initial returns to be low. Meanwhile, the insignificance of internal and investment risks that influence IPO initial returns is due to investors' unpreparedness or lack of focus on the company's external information. So, it emphasizes that during the pan-

**Table 4.** Result of estimation

Models	C	DRI	DRE	DRV	DRA	AGE	Ln IPO Size	R <sup>2</sup>	F-Test	VIF	BP
1	0.074	-0.001	-0.021**	-0.008	-	0.001	0.014	0.052	1.43	1.22	0.10
2	0.126	-0.005	-	-	-	0.0001	0.007	0.011	0.48	1.18	2.70
3	0.084	-	-0.023**	-	-	0.001	0.013	0.05	2.29*	1.14	0.10
4	-0.153	-	-	-0.019	-	0.001	0.006	0.015	0.69	1.06	1.64
5	0.069	-	-	-	-0.007**	0.001	0.011	0.032	1.47	1.18	0.84

Note: Significance level (\*, 10%), (\*\*, 5%), and (\*\*\*, 1%).



demic, the most important thing is the quality of external risk information revealed in the prospectus of companies that are IPO on IDX. In other words, investors in Indonesia assume that external and overall risk disclosures that provide negative results are a form of the potential inability of company management to control the company during the pandemic.

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## CONCLUSIONS AND IMPLICATION OF THE STUDY

This study investigated how risk disclosure affects the initial returns of companies undergoing initial public offerings (IPOs) during the Indonesian pandemic. The analysis revealed that external risk disclosures significantly negatively impacted initial returns over the three-year research period. This finding suggests that potential investors in Indonesia were particularly concerned with external risks, implying that more thorough external risk disclosure could reduce initial returns. Additionally, the study found that overall risk disclosure also influenced initial returns.

The yearly analysis presented varied results. In 2020, initial returns were influenced by the firm's age, with older companies generally providing higher initial returns when they went public. In 2021, both the overall risk and the size of the company were significant factors, indicating that larger companies with extensive risk disclosures could offer higher initial returns. By 2022, investment risk factors became more prominent, suggesting that investors were increasingly aware of investment risks, and companies with robust investment risk management practices saw minimized initial returns. The findings of this study have important implications for both practice and theory. Practically, companies considering IPOs should prioritize comprehensive risk disclosure, particularly regarding external risks, to align with investor concerns and potentially mitigate negative impacts on initial returns. For policymakers and regulatory bodies, the results underscore the need for clearer guidelines on risk disclosure practices to ensure consistency and transparency in the IPO process.

From a theoretical perspective, this study enhances the understanding of risk disclosure's role in shaping investor behavior during IPOs. It supports and extends existing theories by highlighting how different types of risk disclosures – internal, external, and investment – affect initial returns over time and in different market conditions. Future research could build on these findings by exploring industry-specific impacts and comparing pre-, during, and post-pandemic data to further refine theoretical models of risk disclosure and investor behavior.

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