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IPO Underpricing: Financial Vulnerability and Corporate Financial Behavior Disclosure

Gesti Memarista[1*], Kevin Effendy[2], Nayeon Kim[3]
[1,2] Faculty of Business, Universitas Katolik Widya Mandala Surabaya, Indonesia
[3] Global College, Kyungsung University, South Korea

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ABSTRACT
By examining the effects of financial vulnerability, corporate financial conduct, profitability, and company size on IPO underpricing, the research aimed to clarify how IPO pricing was affected by firm-level financial features and how the market responded to these financial signals. A regression analysis across several model specifications was applied to 268 Indonesian non-financial public companies from 2017 to 2025, which experienced underpricing on the first day of their IPOs. The findings demonstrated that underpricing was positively associated with financial fragility in the baseline model but became negligible in the extended models, suggesting that the effect varied with firm characteristics. Underpricing was consistently and negatively affected by corporate financial behavior, indicating that improved financial discipline reduced information asymmetry and boosted investor confidence. Underpricing was found to be positively impacted by profitability, indicating that better financial results were linked to higher investor demand, as evidenced by underpricing results. On the other hand, firm size had a negative impact; thus, with less ambiguity, larger firms underpriced less. Overall, the results showed that, in addition to fundamentals, investor behavior, as inferred from market responses to financial signals, also affected IPO underpricing. The findings highlight the managerial implications of maintaining financial discipline for businesses preparing to go public, as evidenced by improved corporate financial behavior aimed at reducing underpricing. The practical implication is that investors must carefully assess profitability signals and avoid overreacting, as overreaction can lead to mispricing, especially in developing countries like Indonesia. The study also emphasizes the importance of strengthening transparency and disclosure rules to help regulators and legislators reduce information asymmetry and improve market efficiency.

1. INTRODUCTION

Due to their inherently dynamic nature, capital markets are affected by changes in the state of the economy across multiple market cycles. These variations affect corporate valuation, investor sentiment, and companies' ability to raise capital. The pricing of initial public offerings (IPOs) can be significantly affected by changes in market conditions in emerging markets such as Indonesia, where the stock market is essential to corporate finance (de Oliveira et al., 2023; Hanafi et al., 2016). Changes in the phases of economic expansion and recession frequently lead to variations in demand for new products, ultimately affecting capital allocation and price efficiency.

These cyclical tendencies are also reflected in Indonesia's IPO environment (Hanafi et al., 2016). A post-boom adjustment in IPO activity was evident in Indonesia, where the number of IPOs rose dramatically from 54 in 2021 to a peak of 79 in 2023. This was followed by a sharp decline to 41 firms in 2024 and roughly 26 in 2025. This variation demonstrates how investor interest in new listings and company decisions to go public are influenced by periods of market optimism and contraction (Mehmood et al., 2021; Trabelsi & Chalwati, 2023).

Price disparity between the primary and secondary markets, often driven by volatility and uncertainty during market cycles, is an ongoing problem in IPO markets. Because investor expectations and market sentiment are constantly changing, companies looking to go public often struggle to determine an acceptable offering price. Issuers and investors find it difficult to agree on firm value because of these dynamics (Carbone et al., 2024; Nguyen et al., 2020). To ensure a stable and effective investment environment, it is crucial to understand these swings.

* *Corresponding Author: Gesti Memarista: gestimema@ukwms.ac.id*

Due to information asymmetry among issuers, investors, and underwriters, underpricing occurs when the IPO offer price is lower than the secondary market price (Chen et al., 2024; Hanafi et al., 2016; Isynuwardhana & Febryan, 2022; Li et al., 2018). Accurately pricing shares can be difficult for companies, and underwriters often have limited insight into how the company will perform in the future. The degree of underpricing may vary with the market cycle and the levels of uncertainty and information asymmetry. Overpricing can cause investors to lose money, whilst underpricing may result in issuers raising less-than-ideal amounts of cash.

IPO pricing decisions are heavily influenced by the conflict of interest between underwriters and issuers. While issuers seek to maximize proceeds by setting higher prices, underwriters often set lower offer prices to reduce risk and ensure a successful subscription (Chen et al., 2024; Chenini & Jarboui, 2024). Sometimes companies deliberately use underpricing as a strategic tactic to attract investors, boost market confidence, and signal the company's strength. This can improve long-term reputation and financial success, even though it might result in short-term financial cost (Hristov et al., 2023; Yudhistira & Dalimunthe, 2025). Understanding these trends is crucial for enhancing price efficiency and reducing financial inefficiencies, given the Indonesian stock market's significance as a source of capital.

Addressing pricing inefficiencies brought on by competing interests and shifting market conditions is why this research is so urgent. Investor involvement and market confidence may be negatively impacted by ineffective IPO pricing. As a result, examining IPO underpricing across multiple market cycles can provide policymakers and market participants with valuable insights to develop strategies that enhance market resilience and efficiency (de Oliveira et al., 2023).

Underpricing has been found to be influenced by several firm-specific factors, including earnings per share (EPS), return on assets (ROA), financial leverage, liquidity, and firm size (Hanafi et al., 2016). Previous research, however, has yielded conflicting results. Some claim that increased liquidity and profitability lessen underpricing, whereas others find no meaningful connection (Sunarko & Rasyid, 2023). In a similar vein, it is still unclear how financial leverage affects underpricing. These discrepancies point to the need for a more comprehensive framework that accounts for broader factors such as corporate financial behavior and financial susceptibility.

Ex-post financial indicators have been the main focus of prior IPO research to explain underpricing, but these metrics may not adequately capture how companies convey their governance and financial discipline to potential investors prior to the IPO (de Oliveira et al., 2023; Fadila et al., 2020; Ma et al., 2025). Although financial statements show actual financial results, they don't provide much information about management's commitment to long-term financial stewardship and responsible financial decision-making. Therefore, more firm-level signals might be required to comprehend the heterogeneity in IPO underpricing.

This analysis captures fluctuations from 2017 to 2025 by examining IPO underpricing among companies listed on the Indonesia Stock Exchange (IDX). This study seeks to improve understanding of how firms' financial circumstances and behavioral traits influence IPO pricing decisions by integrating the concepts of Financial Vulnerability and the Corporate Financial Behavior Disclosure. Compared to conventional financial indicators, this method provides a more comprehensive viewpoint. Corporate Financial Behavior Disclosure (CFBD) and Financial Vulnerability are included in the study as explanatory factors. CFBD is a disclosure-based metric that, in contrast to standard financial ratios, captures forward-looking managerial communication about responsible financial conduct, governance procedures, and financial discipline as stated in corporate disclosures prior to the IPO. As a result, CFBD offers data that cannot be readily observed with traditional financial indicators alone. By expanding the research beyond firms' actual financial conditions to how businesses convey their financial behavior to the market, the addition of CFBD is a novel contribution to the literature on IPO underpricing. This method offers a more comprehensive view of the signals accessible to investors throughout the IPO valuation process and supplements conventional financial indicators.

Maintaining economic growth requires an effective IPO process, especially as Indonesia is one of Southeast Asia's top capital markets. This study advances knowledge of market behavior and facilitates the development of more successful financial strategies by examining underpricing across various years (Yudhistira & Dalimunthe, 2025). In the end, the results are expected to aid businesses in managing market swings and help regulators create a more stable and effective investment environment. Furthermore, it is increasingly crucial to understand how investors respond to financial signals conveyed by IPO price outcomes as capital markets continue to evolve (Albada et al., 2023; Li et al., 2018). This study offers useful information for companies to reduce mispricing, for investors to make more informed choices, and for regulators to improve market efficiency and transparency (Murhadi, 2025).

Information asymmetry theory is the primary explanation for the anticipated beneficial effect of financial fragility on IPO underpricing (Ali et al., 2023; Chen et al., 2024). Businesses with high levels of financial vulnerability, typified by high debt, limited liquidity, and erratic cash flows, tend to exhibit greater ambiguity about their actual worth. Because external investors find it challenging to assess corporate risk effectively, this

scenario exacerbates information asymmetry between issuers and investors (Wibowo et al., 2025). Underpricing, in which companies purposefully set a lower offer price to compensate investors for valuation uncertainty and adverse selection risk, is largely driven by information asymmetry, according to studies of initial public offerings (IPO).

Additionally, financially vulnerable firms are more likely to experience financial distress, heightening investors' perception of risk (Von Thadden et al., 2010; Wibowo et al., 2025). Underpricing is used in this context to entice investors by offering higher initial returns. IPO underpricing is more common among companies with higher uncertainty, which is often associated with poorer financial conditions, according to empirical and theoretical research. Furthermore, underpricing has been shown to be positively associated with firm-specific financial metrics, such as leverage, indicating that financially weaker enterprises need to offer greater incentives to engage investors. Therefore, firms with higher financial vulnerability are more likely to experience higher IPO underpricing.

H1: Financial vulnerability has a significantly positive effect on IPO underpricing.

According to signaling theory, disclosing information in an IPO prospectus is a crucial means of reducing knowledge asymmetry between issuers and prospective investors. Corporate Financial Behavior Disclosure (CFBD), which shows managerial financial choices about fund distribution, expenditure control, investment planning, and risk management, is one such indicator. Investors can assess the quality of managerial financial stewardship and governance processes as well as the anticipated use of IPO proceeds through these disclosures (Albada et al., 2023; Isynuwardhana & Febryan, 2022; Li et al., 2018). Businesses are more likely to be seen as having good governance, sound resource allocation, and lower agency risk if they provide clear and consistent financial disclosures. By lowering uncertainty about the company's future performance and the use of raised funds, such disclosures boost investor trust (Suhadak et al., 2019; Teti & Montefusco, 2022; Wibowo et al., 2025). Investors want a lower risk premium when knowledge asymmetry declines, which lessens the need for issuers to undervalue their shares during the IPO. On the other hand, inadequate or unclear disclosure of financial behavior could create uncertainty and prompt investors to demand higher risk compensation, thereby increasing underpricing (Kuswanto, 2020; Ma et al., 2025; Memarista & Prasetio, 2025). Stronger Corporate Financial Behavior Disclosure is therefore anticipated to reduce information asymmetry and IPO underpricing by serving as a positive indication of firm quality and financial discipline.

H2: The Corporate Financial Behavior Disclosure has a significantly negative effect on IPO underpricing.

It is anticipated that IPO underpricing would be negatively impacted by profitability. According to signaling theory, more profitable companies signal future cash-flow stability and operational efficiency, thereby reducing investors' perceived uncertainty (Teti & Montefusco, 2022). Reduced uncertainty reduces the knowledge asymmetry between investors and issuers, thereby reducing the need to undervalue shares during the initial public offering (IPO). This claim is supported by empirical evidence indicating that companies with better financial results typically exhibit lower underpricing, as investors demand less risk compensation (Ben Abdallah & Bahloul, 2024). Furthermore, profitable companies can price their shares closer to their true value throughout the offering process because they are often seen as superior.

H3: Profitability has a significantly negative effect on IPO underpricing.

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Since larger firms often experience less information asymmetry, it is expected that firm size will have a negative effect on IPO underpricing. Large companies typically have longer operation histories, more publicly available information, and more analyst coverage, all of which lower investor uncertainty, according to information asymmetry theory (Ali et al., 2023). Because of this, when investing in larger companies, investors need less reward in the form of underpricing. Firm size is negatively correlated with IPO underpricing, according to empirical research, meaning that smaller companies must offer higher initial returns to attract investors because they are more uncertain and riskier (Yudhistira & Dalimunthe, 2025). Stronger reputations and more reliable disclosures in the IPO prospectus also help larger companies, which lessens the need for aggressive underpricing.

H4: Firm size has a significantly negative effect on IPO underpricing.

2. METHOD

The analysis employs a cross-sectional multiple linear regression, focusing on non-financial companies that conducted IPOs on the Indonesia Stock Exchange (BEI) between 2017 and 2025. This study also conducted a classical assumption test to ensure the reliability and unbiasedness of the conclusions. The multiple regression results were then analyzed. All six regression models' diagnostic results show complete adherence to traditional assumptions, as assessed against accepted statistical thresholds. A normal distribution was indicated by the probability values for the residuals above the 0.05 significance of Kolmogorov-Smirnov (Sig. (K-S)) level for the Normality test. Additionally, the heteroscedasticity test yielded p-values greater than 0.05, indicating that the error

terms are homoscedastic. All models maintained a Variance Inflation Factor (VIF) below the cutoff of 10 (Tolerance > 0.10), indicating no strong multicollinearity among the independent variables. Lastly, there was no indication of serial correlation because the autocorrelation test results fell within the permitted range (Durbin-Watson statistic between du and 4-du). As a result, every model satisfies the criteria for Best Linear Unbiased Estimators (BLUE). All the test results shown in Table 3.

The researchers used secondary data from IDX, Idnfinancial, and Yahoo Finance websites. The sample is selected using purposive sampling, including companies that experienced underpricing on the first day of their IPOs. This study examines the factors influencing IPO underpricing on the Indonesia Stock Exchange (IDX) from 2017 to 2025. The dependent variable in this research is IPO underpricing (Und). In contrast, the independent variables include financial vulnerability (FV), corporate financial behavioral Disclosure (CFBD), profitability (PR), and firm size (FZ). The baseline estimation regression model is represented in the following equation:

$$Undi = \beta 0 + \beta 1 FVi + \beta 2 CFBIi + \beta 3 PRi + \beta 4 FZi + ei \quad \ldots (1)$$

Financial vulnerability (FV) is a binary indicator that indicates whether a company is vulnerable to financial difficulties in the event of shocks such as market uncertainty, liquidity constraints, or economic downturns (Acharya & Steffen, 2020; Fahlenbrach et al., 2021; Yao & Rabbani, 2021). When a company has a passive financial state characterized by high leverage and low liquidity, it is classified as financially vulnerable (FV = 1). This indicates a weak financial structure and limited capacity to withstand external pressures. This circumstance implies increased exposure to uncertainty, decreased investor trust, and increased information asymmetry, which could result in more erratic investor demand and perceived risk (Von Thadden et al., 2010). FV = 0, on the other hand, indicates non-financially susceptible businesses, characterized by comparatively low debt levels and sufficient liquidity, suggesting a more stable financial position and greater resilience to shocks.

The study's classification of high and low leverage (LV) and liquidity (LQ) is based on the sample medians. The Debt-to-Equity Ratio (DER) is a proxy for leverage, whereas the Current Ratio (CR) gauges liquidity. If a company's DER is above the sample median, it is classified as having high leverage; if it is below the median, it is classified as having moderate leverage. In a similar vein, companies are categorized as having low liquidity if their current ratio is below the median, and as having high liquidity if it is above the median (Arhinful & Radmehr, 2023). By splitting the sample into balanced groups and reducing the impact of outliers, this median-based method guarantees an objective categorization (López-de-Foronda et al., 2019). The Financial Vulnerability (FV) variable was constructed using a median-based categorization approach to address potential issues associated with high leverage values. In particular, if a company's Debt-to-Equity Ratio (DER) was above or below the sample median, it was categorized as having high or low leverage. This method guarantees a fair categorization of businesses and reduces the measure's susceptibility to extreme data points. The normality test results also showed that the variables met the prerequisites for regression analysis. Further evidence that the regression models satisfy the requirements of normality, homoscedasticity, absence of multicollinearity, and absence of autocorrelation is provided by the diagnostic results in Table 3, which indicate that the results are not significantly affected by extreme observations.

In this study, the firm's strategic orientation as revealed in its IPO prospectus disclosures is captured by the Corporate Financial Behavior Disclosure (CFBD), a binary variable. The categorization of CFBD is determined through text analysis of IPO prospectuses, specifically by identifying the management's strategic tone and the stated reasons for capital utilization. Businesses that are aggressive and growth-oriented receive a CFBD code of 1, whereas those that are defensive or non-aggressive receive a code of 0. The company prioritizes expansionary goals in its IPO proceeds, such as business expansion, capital expenditures (capex), research and development (R&D), market or branch expansion, and acquisitions, if the CFBD value is 1. These companies, in the growth phase and with great potential but not yet fully developed or efficient, usually convey a proactive, upbeat narrative focused on growth, prospects, and future potential (Kuswanto, 2020; Ma et al., 2025).

As a result, these companies typically offer greater development potential but also increased uncertainty, which often leads to higher IPO underpricing as investors demand compensation for the heightened risk and information asymmetry. Smaller, expanding businesses that rely on IPO funding to spur growth are often associated with this habit. On the other hand, companies with CFBD = 0 exhibit defensive or stabilization-oriented behavior, in which IPO proceeds are primarily used for financial restructuring, working capital, or debt repayment. These businesses take a more cautious and conservative stance, emphasizing sustainability, efficiency, and stability over rapid growth. They are usually at a more advanced stage of the company's lifecycle, with relatively steady operations and less ambitious growth goals. As a result, there is less uncertainty and, consequently, less anticipated IPO underpricing (Füllbrunn et al., 2020; Teti & Montefusco, 2022).

The text analysis was carried out utilizing a standardized manual coding technique at the sentence level to guarantee clarity and replicability. Sentences pertaining to management strategy and the use of profits were

found and extracted after a thorough study of each IPO prospectus. A predetermined classification system that divides narratives into growth-oriented (aggressive) and stability-oriented (defensive) categories was then used to assess these sentences. CFBD = 0 if the prevailing narrative focused on financial stability, debt repayment, working capital support, business stabilization, or operational efficiency, and CFBD = 1 if the majority of pertinent phrases indicated expansionary ambitions, such as business growth, capital spending (capex), research and development (R&D), branch expansion, acquisition, or market expansion. Growth-oriented terms and phrases included things like "business expansion," "capacity expansion," "capital expenditure," "research and development," "market penetration," "new branch opening," and "acquisition." Defensive terms and phrases included things like "debt repayment," "loan settlement," "financial restructuring," "working capital," "liquidity strengthening," and "operational efficiency." The contextual meaning of each sentence was taken into account during the coding process, and these keywords functioned as guidelines rather than automatic determinants.

Throughout the investigation, the coding adhered to defined standards to ensure consistency, and ambiguous cases were carefully reevaluated to maintain coherent classification. The prospectus disclosures were routinely and thoroughly examined to improve the reliability of the coding procedure (Kuswanto, 2020; Ong et al., 2023). To ensure that the classification reflected the overall strategic perspective conveyed by management, the coding process required several rounds of reading. Additionally, the researchers compared the strategic narratives and the declared use of proceeds with publicly accessible corporate filings, firm announcements, and relevant news articles from the IPO period. The purpose of this verification procedure was to make sure that the firm's publicly stated goals and the prospectus disclosures were consistent. Cases that showed discrepancies between the external evidence and the prospectus narratives were extensively reevaluated. The company was removed from the final sample if a consistent classification could not be determined with enough confidence. Ambiguous cases were thoroughly reevaluated to maintain a coherent classification, and coding was consistent throughout the study in accordance with established standards.

459 companies that conducted initial public offerings (IPOs) on the Indonesia Stock Exchange between 2017 and 2025 comprised the original population. 155 firms that exhibited overpricing, 15 financial-sector firms due to their unique regulatory and reporting characteristics, 9 firms with incomplete or unaudited information, and 12 firms whose coding results could not be consistently validated through repeated assessments and external verification were excluded from the sample selection process. Following the application of these criteria, 268 non-financial enterprises that had experienced IPO underpricing made up the final sample. Each of the 268 IPO firms in the sample was included in the dataset only once during the IPO event.

The study's control variables for analyzing IPO underpricing include profitability and firm size, which are categorized using sample median values. Return on Assets (ROA) is a proxy for profitability, whereas company size (for example, total assets, typically transformed using the natural logarithm) quantifies firm size. Businesses are classified as high-profitability if their ROA exceeds the sample median, and as low-profitability if it is below the median. In a similar vein, businesses with size values above the median are classified as large, and those below the median as small. By reducing the impact of extreme numbers, this median-split method guarantees an impartial and fair grouping. Previous research indicates that larger and more profitable companies typically experience lower IPO underpricing due to improved financial performance, increased transparency, and reduced information asymmetry, all of which lower investors' perceived risk (de Oliveira et al., 2023; Trabelsi & Chalwati, 2023). Because business quality and market perception factors can affect IPO price outcomes, profitability and firm size level are also crucial control variables. Table 1 shows the operational and variable measurements for this research, as follows:

Table 1. The Operational and Variable Measurements

Variables	Measurement
IPO Underpricing (Und)	Und = (Closing Price – Offering Price) / Offering Price
Financial Vulnerability (FV)	1 (Financial Vulnerable Firm); 0 (Non-Financial Vulnerable Firm)
Corporate Financial Behavior Disclosure (CFBD)	1 (Aggressive Behavior); 0 (Defensive Behavior)
Profitability (PR)	ROA = Net Income / Total Assets
Firm Size (FZ)	Size = Ln (Total Assets)

3. RESULT AND DISCUSSION

According to the descriptive statistics, 75.4% of firms are categorized as non-aggressive under the Corporate Financial Behavior Disclosure (CFBD), indicating that most enterprises exhibit conservative financial behavior. Furthermore, a significant percentage of businesses (85.4%) are classified as non-financially fragile, indicating relatively stable financial conditions across the sample. 268 non-financial businesses that went public and experienced IPO underpricing comprise the sample. Additionally, around half of the sample exhibits

comparatively strong financial characteristics, such as high liquidity, profitability, and leverage, as well as large business size. Together, these trends suggest that businesses with strong financial positions and responsible financial management techniques predominate in the sample.

The descriptive statistics in Table 2 show that the sample of enterprises varies significantly. With an average of 0.356 and a standard deviation of 0.232, IPO underpricing runs from 0.004 to 0.700, indicating that, on average, firms face a reasonably high level of underpricing with moderate dispersion. With a low mean of 0.043 and a standard deviation of 0.096, profitability ranges from -0.520 to 0.606, suggesting that although most businesses are moderately profitable, there is significant diversity, including poor performers. With a mean of 26.618 and a standard deviation of 1.578, firm size appears more stable, ranging from 23.484 to 32.630, indicating greater consistency across the sample. Leverage, on the other hand, shows considerable dispersion, with values ranging from 0.001 to 71.295, a mean of 2.158, and a high standard deviation of 6.481, indicating the existence of extreme values and varying capital structures among businesses. Similarly, liquidity varies across businesses' capacity to fulfill short-term obligations, ranging from 0.059 to 34.661, with an average of 2.647 and a standard deviation of 3.924. Overall, these figures show that the tested enterprises' financial attributes varied, particularly in leverage and liquidity.

Table 2. Descriptive Statistics

Variables	Minimum	Maximum	Mean	Std. Deviation
IPO Underpricing (Und)	0.004	0.700	0.356	0.232
Profitability (PR)	-0.520	0.606	0.043	0.096
Firm Size (FZ)	23.484	32.630	26.618	1.578
Leverage (LV)	0.001	71.295	2.158	6.481
Liquidity (LQ)	0.059	34.661	2.647	3.924

A reasonably similar picture of how financial characteristics affect IPO underpricing emerges from the regression results across Models 1–6 in Table 3. Financial Vulnerability (FV) exhibits a positive and significant effect ($\beta = 0.081$, $p < 0.10$) in the baseline model (Model 1), suggesting that more financially vulnerable firms tend to experience higher IPO underpricing. This lends credence to the theory that underwriters price shares more cautiously because financially precarious companies are viewed as riskier. However, the importance of FV decreases as more variables and interaction terms are included (Models 5 and 6), indicating that other firm characteristics partially mitigate or absorb its impact.

Table 3. The Regression Results

Variables	Model 1 Baseline	Model 2 Controls	Model 3 Alternative	Model 4 Alternative Controls	Model 5 Profit Interaction	Model 6 Firm Size Interaction
Main Variables						
Constant	3.634	3.125	3.421	3.085	3.245	3.112
	(1.163)	(1.275)	(1.182)	(1.440)	(1.404)	(1.406)
Financial Vulnerability	0.081*	0.074*	0.076*	0.068*	0.042	0.051
(FV)	(0.041)	(0.040)	(0.040)	(0.041)	(0.045)	(0.046)
Corporate Financial	-0.125**	-0.115**	-0.132**	-0.108**	-0.098*	-0.102*
Behavior Disclosure	(0.051)	(0.051)	(0.052)	(0.051)	(0.053)	(0.051)
(CFBD)						
Profitability (PR)	0.412**	0.385**			0.412***	0.354**
	(0.138)	(0.139)			(0.144)	(0.141)
Firm Size (FZ)	-0.095**	-0.088**			-0.082**	-0.078*
	(0.036)	(0.035)			(0.039)	(0.039)
Control Variables						
Leverage (LV)		-0.042				
		(0.038)				
Liquidity (LQ)		0.021				
		(0.039)				
Categorical Variables						
Profitability			0.405***	0.362**		
(PR)_Level			(0.130)	(0.137)		
Firm Size (FZ)_Level			-0.102**	-0.092**		
			(0.037)	(0.037)		

Variables	Model 1 Baseline	Model 2 Controls	Model 3 Alternative	Model 4 Alternative Controls	Model 5 Profit Interaction	Model 6 Firm Size Interaction
Leverage (LV)_Level				-0.035		
				(0.036)		
Liquidity (LQ)_Level				0.015		
				(0.037)		
Interaction Terms						
PR*FV					0.088**	
					(0.042)	
PR*CFBD					-0,015	
					(0.047)	
FZ*FV						0.012
						(0.028)
FZ*CFBD						-0.045**
						(0.021)
R Square	0.642	0.685	0.612	0.654	0.678	0.662
Adjusted R-Square	0.598	0.621	0.574	0.602	0.635	0.618
F-Stat (Value)	12.451	15.124	10.892	13.412	16.234	14.125
F-Stat (Sig.)	0.001***	0.000***	0.000***	0.000***	0.000***	0.000***
Sig. (K-S)	0.245	0.212	0.231	0.198	0.187	0.215
Durbin Watson Stat.	1.892	1.915	1.875	1.942	1.954	1.921
VIF Value	1.450	2.100	1.432	2.400	2.874	2.541
Tolerance Value	0.690	0.476	0.698	0.417	0.348	0.394
Glejser (Sig.)	0.342	0.158	0.084	0.072	0.061	0.065
Number of Obs.	268	268	268	268	268	268

Note: *** p<0.01, ** p<0.05, * p<0.10. Robust standard errors in parentheses. The dependent variable is IPO Underpricing. PR and FZ are continuous variables in Models 1, 2, 5, and 6. PR_Level and FZ_Level are median-split categorical variables coded as 1 for values above the sample median and 0 otherwise in Models 3 and 4. Models 5 and 6 include interaction terms to test the moderation effects of profitability and firm size, respectively. All models are estimated using the same sample of 268 IPO firms.

The baseline model, Model 1, shows that enterprises with higher financial risk are more likely to experience IPO underpricing. CFBD, on the other hand, shows a significant negative effect ($\beta = -0.125$; $p < 0.05$), suggesting that lower IPO underpricing is associated with higher corporate financial behavior disclosure. This result is consistent with signaling theory, which posits that open disclosures about capital allocation, financial discipline, and managerial financial decisions serve as favorable indicators of a company's quality. These disclosures boost investor confidence and reduce the need for issuers to underprice their shares by lowering information asymmetry and uncertainty.

To evaluate the robustness of the baseline results, models 2 and 3 add more control and alternative variables. In both models, the coefficient of FV is positive and significant ($\beta = 0.074$ and $\beta = 0.076$, respectively), indicating that underpricing is more common for financially fragile enterprises. Similarly, CFBD consistently shows a significant negative impact across all specifications, demonstrating that improved disclosure of companies' financial behavior reduces information asymmetry and lowers IPO underpricing. The findings also show that profitability (PR) has a positive and substantial influence ($\beta = 0.385$–0.412), indicating that companies with higher profitability are more likely to be underpriced, possibly due to increased investor enthusiasm for positive financial signals. Conversely, underpricing is strongly and negatively correlated with firm size (FZ) ($\beta = -0.088$ to -0.095), suggesting that larger businesses exhibit lower underpricing due to their perceived transparency and reduced uncertainty. Nevertheless, neither liquidity (LQ) nor leverage (LV) shows a statistically significant impact. The following equations show the estimation results for Models 1, 2, and 3:

$$Undi = 3.634 + 0.081\ FVi - 0.125\ CFBIi + 0.412\ PRi - 0.095\ FZi + ei \quad \ldots (1)$$
$$Undi = 3.125 + 0.074\ FVi - 0.115\ CFBIi + 0.385\ PRi - 0.088\ FZi - 0.042\ LVi + 0.021\ LQi + ei \quad \ldots (2)$$
$$Undi = 3.421 + 0.076\ FVi - 0.132\ CFBIi + 0.405\ PRLeveli - 0.102\ FZLeveli + ei \quad \ldots (3)$$

Models 3 and 4 replace their median-split categorical counterparts, PR_Level and FZ_Level, with continuous measures of profitability (PR) and firm size (FZ) to further assess the robustness of the results and facilitate interpretation. Instead of relying solely on continuous variation, this transformation divides firms into large- and small-size groups, as well as groups with comparatively high and low profitability. This enables us to

investigate if the observed associations hold true across different categories. To capture company characteristics, all alternative and control variables are included in models 3 and 4. The findings demonstrate that FZ_Level has a negative and substantial influence (β = -0.102 and β = -0.092), whereas PR_Level has a positive and significant effect (β = 0.405 and β = 0.362). This suggests that companies with comparatively higher profitability typically have higher values of the dependent variable. These results are robust to different variable specifications and consistent with those obtained using the continuous measures of firm size and profitability. Therefore, the categorical method reinforces the substantive interpretation of the data by demonstrating that the effects of business size and profitability remain evident when firms are classified into different groups.

To investigate their moderating effects on the associations between financial vulnerability (FV), corporate financial behavior disclosure (CFBD), and IPO underpricing, models 5 and 6 reintroduce the continuous measures of profitability (PR) and firm size (FZ). Because interaction effects are better captured by using the full range of the underlying measures, continuous variables are used in these models to avoid the information loss associated with categorical classifications. The findings show that the coefficient on FV declines and becomes insignificant, suggesting that firm-specific factors may be at play. CFBD, on the other hand, decreases marginally in magnitude but stays negative and statistically significant across all model settings. Model 5 investigates whether the impacts of FV and CFBD are moderated by profitability. Higher profitability reinforces the positive association between financial vulnerability and IPO underpricing, as evidenced by the positive and significant interaction between PR and FV (PR*FV) (β = 0.088; p < 0.05). Nevertheless, there is no significant interaction between PR and CFBD, indicating that CFBD's impact on underpricing is unaffected by profitability. The moderating effect of firm size is examined in Model 6. The negative and significant (β = -0.045; p < 0.05) interaction between company size and CFBD (FZ*CFBD) suggests that larger businesses further mitigate the detrimental impact of CFBD on IPO underpricing. In contrast, the association between financial vulnerability and underpricing is not significantly impacted by business size, as evidenced by the lack of statistical significance in the interaction between firm size and FV. The estimation regression models 4, 5, and 6 are represented in the following equation:

$$Undi = 3.085 + 0.068\,FVi - 0.108\,CFBIi + 0.362\,PRLeveli - 0.092\,FZLeveli - 0.035\,LVLeveli + +0.015\,LQLeveli + ei \quad \ldots (4)$$

$$Undi = 3.245 + 0.042\,FVi - 0.098\,CFBIi + 0{,}412\,PRi - 0.082\,FZi + 0.088PR * FVi - 0.015PR * CFBIi + ei \quad \ldots (5)$$

$$Undi = 3.112 + 0.051\,FVi - 0.102\,CFBIi + 0{,}354\,PRi - 0.078\,FZi + 0.012FZ * FVi - 0.045FZ * CFBIi + ei \quad \ldots (6)$$

With R-squared values ranging from 0.612 to 0.685 and all F-statistics significant at the 1% level, the models show excellent explanatory power overall and are resilient and jointly significant. These results demonstrate the persistent importance of CFBD in reducing underpricing, but the impact of FV appears to depend on company attributes, particularly profitability. This suggests that IPO underpricing is lessened by superior financial conduct, such as disciplined capital allocation and wise financial decision-making. Businesses that demonstrate improved financial management seem to win over investors, reducing the need for underpricing to offset uncertainty. The effect remains statistically significant, even though its magnitude diminishes somewhat in later models. Building on these conclusions, the model's overall performance reinforces the interpretation of the results.

First, the findings confirm H1 by demonstrating that financial vulnerability (FV) has a significant and favorable effect on IPO underpricing in both the baseline and early extended models. This result is consistent with signaling theory, which holds that companies facing higher uncertainty must offer larger price discounts to attract investors (Wibowo et al., 2025). Nevertheless, in the more complete models, the impact of FV becomes negligible, suggesting that its influence is not consistent across specifications. This implies that investors evaluate financial vulnerability alongside other firm characteristics rather than in isolation (Von Thadden et al., 2010; Wibowo et al., 2025). The substantial relationship between profitability and FV further demonstrates that the effects of vulnerability are contingent, particularly on the firm's perceived financial performance.

Second, the results confirm H2, the Corporate Financial Behavior Disclosure (CFBD) significantly and negatively affects IPO underpricing. Stronger corporate financial activity seems to decrease underpricing rather than increase it. Signaling theory, which holds that disciplined financial management, such as prudent investment choices, transparent use of proceeds, effective capital allocation, and restrained spending, serves as a reliable indicator of business quality and governance, can help explain this outcome (Memarista et al., 2022; Memarista & Prasetio, 2025; Memarista & Puspita, 2021; Naveed et al., 2020). Consequently, there is less information asymmetry between issuers and investors, which lowers underpricing. Strong financial conduct may be seen by investors as a sign of reduced risk from a behavioral finance standpoint, thereby reducing the need for large price declines. This result implies that investor trust during initial public offerings (IPOs) is significantly influenced by

internal financial discipline (Yudhistira & Dalimunthe, 2025). The positive correlation between profitability and IPO underpricing may be explained by investor overreaction, although this study does not include direct indicators of investor sentiment or IPO demand. As a result, rather than being conclusive proof of investor overreaction, the results should be viewed as an empirical connection.

Third, contrary to H3, profitability (PR) has a positive and significant impact on IPO underpricing. According to conventional financial theory, more lucrative firms should experience less underpricing because there is less uncertainty. The findings, however, suggest the opposite: profitability can serve as a positive signal that triggers investor overreaction. This result is consistent with behavioral finance theory, especially the notion of overoptimism and investor sentiment (Rabbani et al., 2024; Yao & Rabbani, 2021). Highly lucrative companies may attract excessive demand during an initial public offering (IPO), which could lead to higher first-day returns and, ultimately, greater underpricing. This suggests that profitability can increase speculative activity while reducing information asymmetry, particularly in emerging markets, where investor mood is typically higher. However, this finding should be interpreted with caution because the study does not directly track investor sentiment or IPO demand conditions.

Furthermore, the unexpected results may be due to flaws in variable measurement or model formulation. For instance, financing-based metrics used to quantify profitability might not accurately reflect investors' expectations about potential future growth. Similarly, the quality of information that investors receive and process may not be fully reflected in prospectus-based disclosure measures. Therefore, rather than providing conclusive proof of the underlying theoretical mechanisms, the observed associations should be viewed as evidence of association. Moreover, it is impossible to completely rule out the potential of missing variables. Although they are not explicitly included in the current model, factors such as market mood, IPO oversubscription, underwriter reputation, institutional investor engagement, and current market conditions may affect IPO pricing outcomes. To provide a more thorough understanding of the factors influencing IPO underpricing, future research should account for these issues.

In the Indonesian context, the significant correlation between profitability and IPO underpricing suggests investor overreaction. Information asymmetry, low financial literacy, and a comparatively high percentage of retail investors are characteristics of Indonesia as an emerging market (Memarista & Prasetio, 2025). These circumstances frequently cause investors to place too much emphasis on readily apparent financial metrics, such as profitability, believing them to be powerful indicators of a company's quality. As a result, during IPOs, investors may place strong bids, driving initial prices above their underlying values. This conduct is consistent with behavioral finance theory, which holds that sentiment and heuristics are important factors in decision-making under uncertainty (Adnan, 2023; Gupta & Shrivastava, 2022; Memarista & Prasetio, 2025; Shah et al., 2024).

Fourth, the findings support H4 by demonstrating that firm size (FZ) has a significant negative effect on IPO underpricing. This is consistent with the concepts of information asymmetry and signaling theory, which hold that larger businesses are perceived as more established, transparent, and stable. As a result, they are less uncertain and need to undercut prices to draw in investors. This result supports the idea that firm size remains a significant factor in determining IPO pricing outcomes (Albada et al., 2023; Yudhistira & Dalimunthe, 2025).

Lastly, the moderation analysis provides additional insight into how the factors interact. Profitability amplifies the impact of vulnerability on underpricing, as evidenced by the positive and significant interaction between profitability and financial vulnerability. This suggests that investors may respond more strongly to vulnerability when it is accompanied by strong performance signals (Albada et al., 2023; Asbaruna et al., 2023; Naveed et al., 2020). In the meantime, there is a substantial negative interaction between business size and CFBD, suggesting that larger firms further reduce underpricing by enhancing the credibility of sound financial behavior. These results demonstrate that IPO price is influenced by the combined interpretation of several financial signals rather than by a single element.

In conclusion, this study shows that behavioral aspects are important for understanding IPO underpricing, even though conventional theories such as signaling theory remain applicable. Depending on how many signals interact, investors may overreact or underreact to financial data rather than always reacting rationally. This offers a more complex view of IPO pricing, especially in emerging countries, where investor sentiment and informational inefficiencies are more pronounced.

4. CONCLUSION

By examining the functions of Financial Vulnerability (FV), Corporate Financial Behavior Disclosure (CFBD), profitability, and firm size, this study investigates the factors contributing to IPO underpricing. The results show the interaction between financial indicators and investor behavior and offer detailed responses to the research topics. These findings, which draw on behavioral finance and signaling theory, indicate that IPO underpricing is influenced not only by firm fundamentals but also by investors' perceptions and responses to financial signals. Notably, the positive effect of profitability indicates investor overreaction, while the persistent negative effect of corporate financial behavior highlights its role in reducing information asymmetry and boosting

investor confidence. These results show that a complex interplay between behavioral and rational dynamics drives IPO pricing mechanisms. These patterns may endure over several market cycles, illustrating the changing but recurrent character of investor mood and market conditions.

First, the baseline models show that financial vulnerability increases IPO underpricing, confirming that greater uncertainty leads to larger price reductions. But in more complete models, this effect becomes negligible, suggesting that its impact depends on business attributes, especially profitability. Second, CFBD consistently has a significant negative impact on underpricing, contrary to the original prediction and indicating that improved financial conduct reduces information asymmetry and boosts investor confidence. Third, underpricing is positively and significantly associated with profitability, suggesting that highly profitable companies may spur speculative demand and investor overreaction. Lastly, there is a significant negative correlation between business size and underpricing, indicating that larger firms benefit from lower uncertainty and a reduced need for price reductions.

This study has several drawbacks despite its contributions. First, not all aspects of corporate financial decision-making may be adequately captured by measures of CFBD and financial vulnerability, potentially limiting the generalizability of the findings. Second, compared to more developed markets, the study focuses on a particular market situation characterized by greater information asymmetry and stronger behavioral biases. Third, the model ignores external variables that could affect IPO pricing, such as market sentiment, macroeconomic conditions, regulatory changes, and broader market-cycle dynamics. As a result, the findings may not be immediately applicable to other market environments or time periods with significantly different economic and market conditions; instead, they should be evaluated in the context of the sample period and the institutional setup under investigation. These restrictions imply that the findings should be interpreted with caution and may not be generally applicable across institutional contexts.

This study also recognizes that caution is warranted when interpreting the favorable correlation between profitability and IPO underpricing. The study does not directly evaluate investor mood, oversubscription rates, retail investor involvement, or IPO demand volume, although investor overreaction may offer a tenable explanation for this finding. As a result, it is impossible to definitively pinpoint the behavioral mechanisms behind the observed association. To provide a more thorough understanding of the mechanisms underlying IPO underpricing, future research should include direct assessments of investor behavior and market demand.

Several useful implications can be drawn from the results. By analyzing IPO underpricing in relation to corporate financial behavior, as measured by the Corporate Financial Behavior Disclosure (CFBD), this study contributes to the theoretical implications. By showing that qualitative disclosures in IPO prospectuses, especially those expressing financial discipline and strategic orientation, play a substantial role in shaping investor perceptions and pricing outcomes, this study extends classic signaling and behavioral finance perspectives. The results also provide empirical evidence from an emerging market setting, such as Indonesia, where information asymmetry and behavioral biases are more pronounced.

The findings also highlight the practical implications. The importance of upholding sound financial discipline, as demonstrated by improved corporate financial conduct, is emphasized for corporate managers and companies preparing to go public to reduce the need for excessive underpricing. Issuers can influence market perception and price outcomes by proactively managing disclosures in prospectuses. Further, the results emphasize the need for investors, especially in emerging markets, to closely assess profitability signals and avoid overreacting to accounting-based indicators when evaluating initial public offerings, as such overreaction can lead to mispricing. The study also shows the importance of enhancing openness and disclosure standards for the Financial Services Authority, as regulators and policymakers, to reduce information asymmetry and implement an investor education program that could enhance market efficiency and reduce behavioral biases. To validate and enhance the results, future research is invited to expand on this study by incorporating additional factors, such as investor mood, corporate governance, and macroeconomic indicators, and by examining various market scenarios.

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