# The Effect of Risk Management, Risk Mitigation, Auditor Reputation, Company Size, and Public Owned Shares on Underpricing

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***ABSTRACT***

*The information asymmetry in this study is proxied through the underpricing phenomenon that occurs when the company conducts an initial share price offering. This study aims to analyze and test the influence of risk management, risk mitigation, the reputation of public accounting firms, company size, and publicly owned shares on information asymmetry. This study uses a quantitative method on initial public offerings firms listed on the Indonesia Stock Exchange, analyzed with multiple linear regression and robustness checks using SPSS. The test results showed that risk mitigation and public accounting firms' reporting had a significant negative influence on underpricing. This shows that these two variables act as signals of effective company quality. Information about risk mitigation is more acceptable to the market than information about risk identification alone. Risk management and company size show significant positive influences. This suggests that the market has an unnatural reaction to risk disclosures in large companies. In contrast to the variable of publicly owned stocks, which do not show a significant influence on underpricing. This research contributes by differentiating the roles of risk disclosure and risk management/mitigation and shows that investors respond more strongly to risk mitigation actions than to mere risk information.*

***Keywords***: *Company Size, Public Accounting Firms, Public Owned Shares, Risk Management, Risk Mitigation, Underpricing.*

## INTRODUCTION

The Indonesia Stock Exchange (IDX) is one of the most attractive stock exchanges at the global level, with the growth of global peers and an active and liquid secondary market. The process of a company selling shares to the public for the first time is an effort to raise funds from investors that will later be used for investment, expansion, and business development (Ross, 2020). Initial Public Offering (IPO) activities in the Indonesian capital market show significant development. IPOs are one of the main alternatives for companies to obtain funding from the public and increase business expansion. However, a phenomenon that almost always arises in the IPO process is underpricing, which is a condition where the price of shares in the primary market is lower than the price when traded in the secondary market (Ibbotson, 1975).

Underpricing is closely linked to information asymmetry, where issuers possess more complete internal information than investors, creating imbalances that may lead firms to set lower offer prices to attract investors (Rock, 1986). To support investment decisions, companies provide prospectuses as a key source of written information in public offerings, which include disclosures on business risks and mitigation efforts. Previous studies by Loughran and McDonald (2013), Kurniawan (2020), Kuswanto (2021), and Refriazahra and Purwanto (2025) found that risk disclosure has a significant effect on underpricing.

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However, other studies by Ritter (1991), Carter et al. (1998), and Daily et al. (2003) reported inconsistent or insignificant results.

The difference in the results of the study also occurred in the risk mitigation variable. Some studies, such as Daily et al. (2003) and Gu et al. (2025), show that risk mitigation disclosures can reduce information asymmetry and influence underpricing. However, other studies such as Verrecchia (2001) show that disclosure does not always have a significant influence. In addition, the reputation of the Public Accounting Firm (*Kantor Akuntan Publik*/KAP) as an external party is also believed to reduce information asymmetry. Rini and Damayanty (2024) and Inaya and Hakim (2025) found that auditor reputation has a significant effect on underpricing. However, contrasting results were reported by Michaely and Shaw (1994), Guo et al. (2024), and Sitorus et al. (2025), which show that auditor reputation has no significant effect on underpricing. Inconsistencies in the results of the study also occurred in the variables of company size and public shareholding. Ritter (1991) found that company size has a significant effect on underpricing, while the research of Clarkson (1994) and Dewi and Hasibuan (2025) shows insignificant results. Studies by Booth and Chua (1996) and Nderi (2009) report inconsistent results regarding public shareholding, while Habib and Ljungqvist (2001), Yang et al. (2022), and Guo and Cao (2025) find a significant influence.

Based on this description, it can be identified that there are several research gaps, which include inconsistencies in previous research results related to the influence of risk management, risk mitigation, KAP reputation, company size, and public shareholding on underpricing. The difference in results shows that the relationship between variables does not yet have a conclusive conclusion, especially in the context of the Indonesian capital market. Differences of views related to the role of information disclosure in reducing information asymmetry. Disclosure theory states that the higher the level of disclosure, the lower the information asymmetry. However, some studies show that risk disclosure can actually increase investors' perception of uncertainty, potentially increasing underpricing.

This shows that the relationship between disclosure and underpricing is still not fully in line with theoretical predictions. There is still limited research that quantitatively measures risk disclosure or risk management and risk mitigation based on the number and quality of disclosures in prospectuses. Most previous research still used simple proxies such as financial ratios or dummy variables, so it has not been able to comprehensively capture how companies manage and communicate risk to investors. Based on these gaps, this study is important to analyze the influence of risk management, risk mitigation, KAP reputation, company size, and publicly owned shares on underpricing in companies conducting initial public offering activities in Indonesia.

## LITERATURE REVIEW & HYPOTHESIS DEVELOPMENT

### The Effect of Risk Management and Risk Mitigation on Underpricing

The information asymmetry theory introduced by Akerlof (1978) explains the imbalance of information between sellers and buyers that can lead to market failure, particularly in IPOs where uncertainty is high. Companies use mechanisms such as underpricing to reduce this asymmetry (Hoque, 2014). Underpricing itself is often used as a proxy for information asymmetry, where higher underpricing indicates greater information gaps. Studies by Jamaani and Alidarous (2019) and Liu et al. (2020) also confirm that underpricing reflects information asymmetry among issuers, underwriters, and investors, making it an empirical indicator of such conditions in IPO markets. Spence (1978) explains information asymmetry through signaling theory, where better-informed parties send credible signals to reduce information gaps. In IPOs, underpricing serves as a signal by offering initial investor gains while indicating firm quality for future financing. Allen and Faulhaber (1989) add that high-quality firms intentionally underprice shares to signal quality and attract investors through positive initial returns.

Risk management or risk disclosure under POJK Number 6/POJK.04/2021 refers to procedures for identifying, measuring, monitoring, and controlling risks in securities

companies, including operational, credit, market, liquidity, compliance, legal, reputational, and strategic risks. Its implementation, including the establishment of a risk management committee, reflects good corporate governance. Based on signaling theory, detailed risk disclosures in IPO prospectuses signal effective risk detection and reduce perceived investment risk. However, empirical findings remain mixed, with studies by Loughran and McDonald (2013) and Kuswanto (2021) showing a significant effect of risk disclosure on underpricing.

Companies listed on the Indonesia Stock Exchange (IDX) are required to implement risk mitigation to maintain investor confidence and price stability, particularly during periods of high volatility (OJK, 2025). Risk management involves continuous processes of identification, analysis, mitigation, and monitoring to prevent losses and achieve organizational objectives (OJK, 2020; Ministry of Law and Human Rights of the Republic of Indonesia, 2025). When disclosed, risk mitigation can enhance market confidence, reduce risk premiums, and align offer prices with market value. Empirical studies by Daily et al. (2003) and Gu et al. (2025) indicate that such disclosure significantly influences underpricing.

H1: Risk management has a negative effect on underpricing.
H2: Risk mitigation has a negative effect on underpricing.

**The Effect of Public Accounting Firm Reputation on Underpricing**

Agency theory Jensen and Meckling (2019) explains the existence of a contractual relationship between the investor and the management or agent. The existence of a difference in interests between the management or agent and the investor must be bridged with an agency relationship based on a contract, where underpricing is used as an instrument in minimizing agency risks. Management seeks to address the information asymmetry of agency costs incurred and minimize risks in general price quotes.

The classical study by DeAngelo (1981) examines the relationship between public accounting company size and audit quality, forming the theoretical basis for the Big Four (formerly Big Eight) dominance, which is associated with higher audit quality. Large audit firms are considered more independent due to their broad client base, reducing reliance on any single client. Big Four auditors are believed to deliver superior audit quality by being more capable of detecting misstatements and reporting them objectively. From an agency theory perspective, auditors act as independent third parties responsible for validating the credibility of a company's financial information.

The Big Four KAPs have strong reputations that encourage them to deliver high-quality audits to avoid litigation risk and reputational loss. Financial statements audited by reputable KAP are considered more credible, reducing investors' concerns about material misstatements and thereby lowering information asymmetry. Empirical evidence on the effect of auditor reputation on underpricing is mixed. Studies by Inaya and Hakim (2025) and Rini and Damayanty (2024) find a significant effect.

H3: Public accounting firm reputation has a negative effect on underpricing.

**The Effect of Company Size on Underpricing**

The efficient market hypothesis was developed by Fama (1970) that financial markets are informationally efficient, where the price of an asset fully reflects all available information. Prices react quickly to new information so that stock prices follow random developments that cannot be easily predicted. Based on the efficient market hypothesis, underpricing should not occur, but as a market anomaly, due to information asymmetry between issuers and investors, causing market prices to not always be efficient in obtaining information during the initial sale of shares.

Company size is a concept that is not clearly defined in the literature and is commonly proxied by indicators such as number of employees, total assets, sales, or market capitalization (Zavalii et al., 2025). Prior studies by Hui et al. (2024) indicate that

company size influences organizational performance. Safitri (2025) found that company size, related-party reputation, and risk factors significantly affect IPO underpricing in Indonesia, suggesting that higher information quality and stronger corporate governance reduce market uncertainty. Beaver et al. (1970) measure company size using the natural logarithm of total assets, as a logarithmic transformation produces a more normally distributed data structure. Research by Ritter (1991) reports a significant effect of company size on underpricing. Larger firms are generally expected to experience lower underpricing because they are more established, widely known, and provide more transparent historical information, thereby reducing information asymmetry and investor uncertainty.

H4: Company size has a negative effect on underpricing.

**The Effect of Public Owned Shares on Underpricing**

Decision judgment theory explains how individuals should act rationally under conditions of risk and uncertainty and is often associated with behavioral perspectives (Simon, 1979). Timely decision-making is essential as it involves strategic to operational actions, which are closely related to corporate risk management disclosure processes. Corporate governance plays a key role in reducing information asymmetry, as effective governance mechanisms enhance transparency and improve the quality of information received by investors. Filatotchev et al. (2015) emphasize the need for future IPO governance research to adopt a holistic, multidisciplinary perspective beyond financial economics, incorporating strategic management, institutional theory, and sociological views of capital markets. Strong governance is expected to reduce information asymmetry and, in turn, lower underpricing in initial public offerings.

According to the Indonesia Stock Exchange Regulation Number I-A on listing requirements, listed companies must have a minimum of 50 million shares held by at least 500 shareholders (OJK, 2020). These shares must meet the free float requirement, meaning they are not controlled by majority owners or affiliates. Publicly owned shares refer to holdings by non-controlling shareholders who are not part of the board of directors or commissioners and are not pledged as collateral. Companies are also required to submit monthly share ownership reports to the IDX through the electronic reporting system. A higher level of public shareholding reflects the company's commitment to regulation, transparency, and accountability, while also broadening managerial oversight. This condition can serve as a governance mechanism that reduces information asymmetry between internal and external parties. Greater public ownership is expected to increase market confidence and potentially influence underpricing. Empirical evidence is that Habib and Ljungqvist (2001), Guo and Cao (2025), and Yang et al. (2022) find a significant effect.

H5: Public owned shares have a negative effect on underpricing.

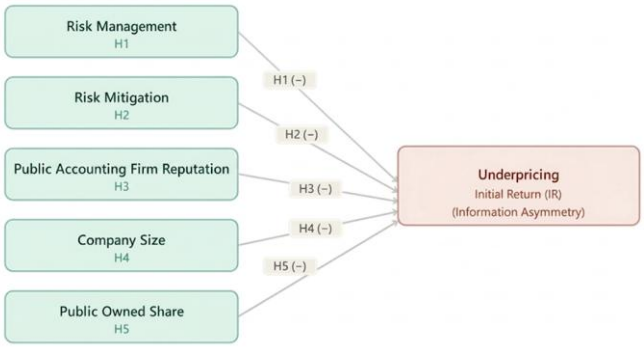


**Figure 1.** Research Framework

Figure 1 illustrates the proposed research framework in which risk management, risk mitigation, public accounting firm reputation, company size, and publicly owned shares are hypothesized to influence underpricing, proxied by initial return and driven by information asymmetry. All relationships are expected to be negative, indicating that stronger risk management and mitigation practices, higher auditor reputation, larger firm size, and greater public ownership can reduce information asymmetry and uncertainty, thereby lowering the level of IPO underpricing.

## RESEARCH METHODS

In order to investigate the impact of risk management, risk mitigation, Public Accounting Firm (*Kantor Akuntan Publik*/KAP) reputation, company size, and publicly owned shares on underpricing, this study employs a quantitative approach with a causal analytic method. All businesses that go public on the IDX in 2024 and 2025 make up the population. Purposive sampling is used in this method, in which the prospective data is fully displayed, and the researcher establishes specific criteria for a particular observation year. Secondary data from the company's prospectus and stock price reports from the IDX's official website were used. This study makes use of cross-sectional data, which is information gathered by researchers for numerous companies at one particular point in time. Information asymmetry proxied with underpricing is measured using Initial Return (IR):

$$IR = \frac{\text{(First Day Closing Price – Bid Price)}}{\text{Offer Pricing}}$$

The risk disclosure index, measured by the number of risk items disclosed, is used to quantify risk disclosure or risk management (X1). The prospectus mitigation score or policy disclosure is used to measure risk mitigation (X2). Public accounting firm reputation is assigned a value of 1 if the auditor is a Big Four firm and 0 otherwise (X3). Company size is measured using the natural logarithm (ln) of total assets (X4). Publicly owned shares are measured by the percentage of shares held by the public in accordance with free float regulations (X5). The dependent variable (Y), representing information asymmetry, is proxied by underpricing, measured using IR. The data analysis in this study uses multiple linear regression with the equation:

$$Y = \alpha + \beta1X1 + \beta2X2 + \beta3X3 + \beta4X4 + \beta5X5 + \varepsilon$$

Where Y represents underpricing (initial return), α is the constant, β1–β5 are the regression coefficients, X1–X5 denote risk management, risk mitigation, public accounting firm reputation, company size, and publicly owned shares, respectively, and ε is the error term. Each coefficient indicates the change in underpricing for a one-unit increase in the corresponding variable, holding others constant. The analysis includes descriptive statistics to describe the data distribution of each variable. Classical assumption tests are conducted using the One-Sample Kolmogorov-Smirnov test for normality, along with multicollinearity and heteroscedasticity tests to ensure the validity of the regression model. Hypothesis testing is performed using t-tests on two sample groups, namely 26 companies and 67 companies. The model's explanatory power is evaluated using the coefficient of determination ($R^2$). All statistical analyses are processed using SPSS software to ensure accuracy and reliability of the results.

## RESULTS

In order to conduct a resilience test or robustness check, we used the first data of the initial public offering firms in 2025, with a sample of 26 companies. After that, a sample of the initial public offering companies in 2024 was included, bringing the total number of samples to 67. Using a sample of 26 organizations, the descriptive analysis of the first

data test gives a summary of the study data profile, including minimum, maximum, mean, and standard deviation.

**Table 1.** Descriptive Statistical Results

| Variable | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| Risk Management | 26 | 5.00 | 66.00 | 20.0385 | 11.36831 |
| Risk Mitigation | 26 | 3.00 | 33.00 | 11.3462 | 7.05375 |
| Public Accounting Firm Reputation | 26 | 0.00 | 1.00 | 0.1923 | 0.40192 |
| Company Size | 26 | 24.00 | 31.00 | 27.3077 | 1.82799 |
| Public Owned Shares | 26 | 10.00 | 30.01 | 18.8954 | 6.15557 |
| Information Asymmetry | 26 | -0.38 | 0.94 | 0.2856 | 0.31832 |
| Valid N (listwise) | 26 | | | | |

Table 1 presents the descriptive statistics of the study variables. The risk management disclosure has an average value of 20.03 with a range from 5.00 to 66.00, while the standard deviation of 11.36 indicates relatively high variation across firms. The highest disclosure is shown by PT Super Bank Indonesia Tbk, whereas the lowest is PT Jantra Group Indonesia Tbk. Risk mitigation has an average value of 11.34, ranging from 3 to 33, indicating that most companies have already disclosed mitigation measures in their prospectuses. The highest mitigation disclosure is observed in PT Merdeka Gold Resources Tbk, and the lowest in PT Merry Riana Edukasi Tbk.

For public accounting firm reputation, the mean value of 0.1923 indicates that only around 19.2% of the sample (approximately 5 companies) use Big Four audit services, while the majority rely on non-Big Four auditors. Company size shows an average value of 27.30 with a relatively small standard deviation of 1.82, indicating that IPO firms tend to have relatively similar asset sizes. The largest firm is PT Bangun Kosambi Sukses Tbk, while the smallest is PT Merry Riana Edukasi Tbk. Publicly owned shares average 18.89%, ranging from 10% to 30.01%, with a standard deviation of 6.15, showing a fairly even distribution. The highest is PT Raja Roti Cemerlang Tbk, while the lowest values are found in PT Bangun Kosambi Sukses Tbk, PT Yupi Indo Jelly Gum Tbk, PT Merdeka Gold Resources Tbk, and PT Chandra Daya Investasi Tbk. Meanwhile, information asymmetry proxied by underpricing shows an average value of 0.2856 (28.5%), with a minimum of -0.38 indicating overpricing in PT Jantra Group Indonesia Tbk and a maximum of 0.94 indicating very high underpricing in PT Super Bank Indonesia Tbk, while the standard deviation of 0.318 suggests high variability in first-day stock price performance across firms.

**Table 2.** Normality Test Results

| Test | Statistics | Unstandardized Residual |
|---|---|---|
| N | | 26 |
| Normal Parameters[a,b] | Mean | 0.0000000 |
| | Std. Deviation | 0.23960571 |
| Most Extreme Differences | Absolute | 0.101 |
| | Positive | 0.099 |
| | Negative | -0.101 |
| Kolmogorov-Smirnov Z | | 0.513 |
| Asymp. Sig. (2-tailed) | | 0.955 |

Table 2 presents the results of the normality test using the One-Sample Kolmogorov-Smirnov method. The test shows an Asymp. Sig. (2-tailed) value of 0.955. This value is greater than the significance level of 0.05. Therefore, it can be concluded that the data in this study are normally distributed.

**Table 3.** Multicollinearity & Heteroskedasticity

| Variable | Tolerance | VIF | t-statistics | Sig. | Conclusion |
|---|---|---|---|---|---|
| Constant | | | 1.093 | 0.287 | Multicollinearity & Heteroskedasticity does not occur |
| Risk Management | 0.426 | 2.348 | -0.033 | 0.974 | |
| Risk Mitigation | 0.559 | 1.790 | 1.161 | 0.259 | |
| Public Accounting Firm Reputation | 0.578 | 1.731 | -0.715 | 0.483 | |
| Company Size | 0.366 | 2.733 | -0.741 | 0.468 | |
| Public Owned Shares | 0.467 | 2.140 | -1.148 | 0.264 | |

Table 3 presents the results of the classical assumption tests, including multicollinearity and heteroscedasticity tests. The multicollinearity test shows that all variables have a Tolerance value greater than 0.10 and a VIF value below 10.00, indicating that there is no multicollinearity problem among the independent variables. Meanwhile, the heteroscedasticity test results show a significance value greater than 0.05, indicating that there are no symptoms of heteroscedasticity in the regression model. These results confirm that the regression model meets the classical assumption requirements and is suitable for further analysis.

A sample of 26 businesses was used for the first hypothesis test. Underpricing was the dependent variable, and the test sought to determine how the independent factors related to each other. An overview of the importance and direction of each variable in the regression model is given by the analysis's findings. The results indicate that a number of factors have varying degrees of impact on underpricing. These results form the foundation for additional interpretation and comparison with the study of the enlarged sample.

**Table 4.** T Test Results with 26 Sample Addition

| Model | Unstandardized Coefficients (B) | Std. Error | Standardized Coefficients (Beta) | t-statistics | Sig. |
|---|---|---|---|---|---|
| Constant | -2.863 | 1.450 | — | -1.975 | 0.062 |
| Risk Management (X1) | 0.019 | 0.007 | 0.681 | 2.641 | 0.016 |
| Risk Mitigation (X2) | -0.028 | 0.010 | -0.624 | -2.770 | 0.012 |
| Public Accounting Firm Reputation (X3) | -0.409 | 0.175 | -0.516 | -2.331 | 0.030 |
| Company Size (X4) | 0.106 | 0.048 | 0.609 | 2.188 | 0.041 |
| Public Owned Shares (X5) | 0.014 | 0.013 | 0.276 | 1.121 | 0.276 |

Table 4 presents the interpretation of the regression model results based on the sample of 26 companies. The constant value of -2.863 indicates that when all independent variables are zero, the underpricing value is -2.863. The coefficient of risk management is 0.019, meaning that every one-unit increase in risk management score will increase underpricing by 0.019, indicating a positive relationship. Risk mitigation has a coefficient of -0.028, showing that an increase in risk mitigation disclosure will reduce underpricing by 0.028, which is consistent with signaling theory. Public accounting firm reputation has a coefficient of -0.409, meaning firms audited by Big Four public accounting firms experience lower underpricing by 0.409 compared to non-Big Four auditors. Company size shows a coefficient of 0.106, indicating that larger firms tend to have higher underpricing, while publicly owned shares have a coefficient of 0.014, suggesting a positive but statistically insignificant effect on underpricing. The resulting regression equation $Y = -2.863 + 0.019X1 - 0.028X2 - 0.409X3 + 0.106X4 + 0.014X5$.

To test the consistency level of research results, the researcher conducted a robustness check by adding the number of observations or research samples using an initial public offering company in 2024. This was done to mitigate risk bias due to limited data and also to see if changes in sample size would change the direction and significance of the relationship between the study variables.

**Table 5.** T Test Results with 67 Sample Addition

| Model | Unstandardized Coefficients (B) | Std. Error | Standardized Coefficients (Beta) | t-statistics | Sig. |
|---|---|---|---|---|---|
| Constant | -2.352 | 0.742 | — | -3.170 | 0.002 |
| Risk Management (X1) | 0.010 | 0.004 | 0.370 | 2.355 | 0.022 |
| Risk Mitigation (X2) | -0.020 | 0.005 | -0.591 | -4.234 | 0.000 |
| Public Accounting Firm Reputation (X3) | -0.224 | 0.079 | -0.369 | -2.828 | 0.006 |
| Company Size (X4) | 0.091 | 0.026 | 0.585 | 3.521 | 0.001 |
| Public Owned Shares (X5) | 0.011 | 0.007 | 0.220 | 1.635 | 0.107 |

The results of the retest with a larger sample number of 67 companies showed that risk mitigation and public accounting firm reputation still had a significant negative influence on information assimilation, proxied with underpricing. Likewise, risk management and company size continue to show a positive influence and remain stable. The consistent results prove that the regression model in this study has good resilience or robustness, and there is no sensitivity to the increase in the number of research observations.

Table 5 shows the regression results for the sample of 67 companies, where the constant value of -2.352 indicates the baseline level of underpricing when all independent variables are zero. Risk management shows a positive and significant effect on underpricing (B = 0.010; Sig. = 0.022), while risk mitigation shows a significant negative effect (B = -0.020; Sig. = 0.000), indicating that stronger mitigation reduces underpricing. Public accounting firm reputation also has a significant negative effect (B = -0.224; Sig. = 0.006), meaning firms audited by Big Four public accounting firms experience lower underpricing. Company size has a significant positive effect (B = 0.091; Sig. = 0.001), suggesting larger firms tend to have higher underpricing. Meanwhile, publicly owned shares show a positive but insignificant effect (B = 0.011; Sig. = 0.107).

**Table 6.** Determination Efficiency Results ($R^2$)

| Statistic | Value |
|---|---|
| R | 0.570 |
| R Square | 0.325 |
| Adjusted R Squared | 0.270 |
| Std. Error of the Estimate | 0.21266 |

Table 6 of the determination coefficient test yielded an adjusted R-squared score of 0.270. This demonstrates that the factors of risk management, risk mitigation, public accounting firm reputation, company size, and publicly owned shares can account for up to 27% of the information asymmetry variables. However, factors outside of the study model, such as macroeconomic and geopolitical events, inflation, or industry type, account for the remaining 73%.

## DISCUSSION

The results of the t-test provide important insights into the determinants of IPO underpricing in this study. The findings indicate that risk management disclosure has a significant positive effect on underpricing. This suggests that broader disclosure of risks is interpreted by investors as an indication of higher uncertainty, which leads them to demand a higher discount on initial share prices. As a result, underpricing increases. This aligns with previous studies such as Loughran and McDonald (2013), Kurniawan (2020), and Kuswanto (2021), which also found that risk disclosure significantly influences market reactions. However, this result contrasts with Ritter (1991) and Carter et al. (1998), who reported insignificant effects, highlighting that in the Indonesian market context, extensive risk disclosure tends to be perceived more as a negative signal that amplifies perceived risk.

In contrast, risk mitigation shows a negative relationship with underpricing. This finding indicates that when firms disclose concrete actions to manage and reduce risks, investors respond more positively, leading to lower underpricing levels. Risk mitigation

functions as a stronger and more credible signal compared to general risk disclosure because it demonstrates actual preparedness in handling potential losses. These findings support signal theory and are consistent with Daily et al. (2003) and Gu et al. (2025), who emphasize that mitigation strategies can reduce information asymmetry. However, the result differs from Verrecchia (2001), who argues that disclosure does not always significantly affect market outcomes.

The study also finds that public accounting firm reputation has a significant negative effect on underpricing. This indicates that firms audited by Big Four accounting firms experience lower underpricing, as high-quality auditors enhance the credibility of financial statements and reduce investor uncertainty. This result supports agency theory and certification theory, where auditors act as independent third parties ensuring information quality. The finding is consistent with Rini and Damayanty (2024) and Inaya and Hakim (2025), who highlight the importance of auditor reputation in reducing information asymmetry. On the other hand, it contradicts Guo et al. (2024) and Sitorus et al. (2025), who found no significant influence of auditor reputation.

Furthermore, company size shows a significant positive effect on underpricing, indicating that larger companies tend to experience higher initial price differences in the market. This may occur due to higher investor demand for large firms or the complexity of their business structures, which increases uncertainty during valuation. This result supports Ritter (1991) but differs from Clarkson (1994) and Dewi and Hasibuan (2025), who found no significant relationship. The positive direction suggests an anomaly where larger firms attract greater market attention, resulting in stronger price adjustments on the first trading day.

Publicly owned shares do not have a significant effect on underpricing, suggesting that the proportion of public ownership is not a key factor considered by investors in pricing IPO shares. Investors tend to focus more on other signals, such as auditor reputation and risk-related disclosures. This finding is consistent with Booth and Chua (1996) and Tewu et al. (2025), who also reported inconsistent effects, but it contradicts Yang et al. (2022) and Guo and Cao (2025), who found that public ownership significantly influences underpricing.

The findings of this study imply that IPO firms should carefully manage how risk information is communicated, emphasizing not only risk disclosure but also clear and actionable mitigation strategies to reduce perceived uncertainty. The role of auditor reputation should also be considered strategically, as engaging reputable auditors can strengthen investor trust and improve perceived financial statement credibility, ultimately reducing underpricing.

## CONCLUSION

The results show that risk disclosure or risk management has a significant positive effect on underpricing, indicating that broader disclosure may increase information asymmetry and market uncertainty, thereby raising underpricing. Risk mitigation has a significant negative effect, suggesting that concrete risk-handling actions reduce information asymmetry and lower underpricing. Public accounting firm reputation also has a significant negative effect, confirming that Big Four auditors enhance credibility and reduce underpricing. Company size has a significant positive effect, indicating that larger firms tend to experience higher underpricing, while publicly owned shares have no significant effect on underpricing.

This study contributes to the financial accounting and capital market literature by distinguishing between risk management and risk mitigation in explaining IPO underpricing. In addition, it provides evidence that public accounting firm reputation plays a more dominant role in reducing information asymmetry compared to company size and public ownership structure in the Indonesian IPO market. The findings suggest that IPO firms should not only focus on risk disclosure but also emphasize concrete risk mitigation strategies and use reputable auditors to enhance investor confidence and

reduce information asymmetry. Regulators are also encouraged to strengthen guidelines on structured and actionable risk reporting in IPO prospectuses.

This study is limited to IPO firms in Indonesia within a specific observation period and relies on secondary data from prospectuses, which may not fully capture the quality of disclosures or other behavioral factors influencing underpricing. Future studies are recommended to extend the observation period, include cross-country comparisons, and incorporate additional variables such as corporate governance quality, investor sentiment, and digital disclosure practices to provide a more comprehensive understanding of IPO underpricing.

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