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The Benchmark Of Investor Decisions To Invest In The Initial Public Offering (IPO)

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Financial Bias, Underwriter Reputation, CEO Reputation, Investment Decision

ABSTRACT
This study aimed at examining the influence of the benchmark used by investors in the investment decision-making process at IPO. The dependent variable in this study was the investment decision while the independent variables were in the form of financial behavior bias consisting of underwriter reputation, CEO reputation, financial statement, representativeness bias, availability bias, overconfidence bias, and self-control bias. Primary data were collected by giving questionnaires to investors who invest at IPO. The population was investors in Yogyakarta with sample of 100 respondents taken by purposive sampling method according to specified criteria. The questionnaire was tested with a validity test and a reliability test. Furthermore, multiple regression analysis was used to test the hypothesis. The results of this study indicated that underwriter reputation, CEO reputation, financial statements, representativeness bias, and availability bias did not affect investment decision-making during the IPO process. While overconfidence bias and self-control bias had a significant positive effect on investment decision-making during the IPO process.

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PRELIMINARY

Investment is a commitment to some funds owned or other resources owned and then invested at the current time to obtain future profits. This is in line with Tandelilin's (2010) statement that investment is a commitment to some funds owned or other resources owned and then invested at the current time to obtain future profits. One of the usual investment activities carried out by investors is investing in shares. This stock investment decision is an effort for investors to get very large returns. However, there is a challenge within a success obtained that becomes a risk for investors. This is an important concern in stock investment decisions that high risk high returns. In selecting the stock, investors can be facilitated by the process of Initial Public Offering (IPO). According to Darmadji and Fakhruddin (2001), the initial public offering is the process of going public in which the company sells shares to the public which is based on the procedures regulated by the capital market law. To achieve the optimal decision, it needs an effort to have the ability, to be able to see the surrounding condition and full of consideration in understanding and analyzing every information.

Regarding the importance of the success of the IPO process, the issuer is trying to attract investors to invest the funds. This information can be used so that investors can determine the steps to be carried out. But the investors are expected to be rational in making decisions. In deciding to invest or not, investors are certainly influenced by several considerations. In this research, there are several components of consideration that will be carried out starting from the issuer's financial statements, underwriters' reputation, top management's reputation and psychological bias related to the attitude of the decisions taken by investors. These considerations will serve as a benchmark for the behavior of investors to invest in the initial public offering process.

The diversity of behavior or attitudes of each investor in several aspects such as things related to the level of knowledge and experience of investing and how strong the motivation to invest and the strength of purchasing power are the important concern for investors to manage some benchmarks to determine the right investment decisions and achieve the desire. Based on several studies having different results or to further strengthen the results obtained, it becomes an important concern and interesting study to be followed up or to confirm the results of previous research. Furthermore, this research is also conducted to find out the success of the IPO process carried out in Indonesia, to know the process of determining investment decisions made by investors, and to know the considerations as the benchmarks in making investment decisions during the initial public offering, and certainly to find out whether benchmarks are very influential in making investment decisions.

LITERATURE REVIEW AND HYPOTHESIS FORMULATION

The Effect of Underwriter Reputation on Investor Decisions

The role of an underwriter in the process of implementing an IPO has a crucial role in conveying information to investors. The issuer will find whether a reputable underwriter can present clear information to investors and boldly take greater risk with the agreed contract. Underwriter investors who can set the right price (cheaper) and the information they convey are clear, it will be valued as reputable underwriters from investors' views (Wahyudi, 2003). The experience and responsibility of an underwriter who already has a good reputation and well-known in his task of representing issuers to sell shares can influence investors in decision making.

Wang *et al.* (2003) in a study in looking at the performance of Chinese IPO companies found that in issuing shares in the IPO process, the underwriter made a greater effort to stabilize the market after the shares were publicly traded. In which by using a reputable underwriter, it will have a greater ability to predict the future profitability of companies that issue shares and give a positive signal to investors. Furthermore, Bajo *et al.* (2016) found that IPO companies underwritten by underwriters who are already well-known by the investors produce greater participation from some financial market participants.

H_1: Underwriter's reputation has a positive effect on investor decisions.

The Effect of CEO Reputation on Investor Decisions

The CEO of a company is responsible for determining the strategic direction and future success of the company, managing performance and influencing people inside and outside the company so that company goals can be achieved. The company's performance is a reflection of the company's CEO in managing company management (Aini, 2008). It can be seen that the company's CEO has a very prominent role in the company's sustainability. This will give investors a signal or information about the future outlook of the company. This is a concern for investors to assess whether their capital is worth investing in the company.

According to Aini and Sumiyana's (2008) research that the researchers use the characteristics of education, experience, and position owned by the CEO of the company and the board of commissioners as a reputation indicator that influences the assessment of investors in IPO companies. From the characteristics used, it was found that the educational background has a positive relationship with investor rating. Previous experience and the experience of the company's board do not have a significant relationship with investor rating.

H_2: CEO's reputation has a positive effect on investor's investment decisions.

The Effect of Financial Statements and CEO Reputation on Investor Decisions

The financial statement is information about the state of the company both from income and costs. The financial statements are investors' concern to find out the quality of the company and its financial condition. The ability of investors to understand and predict the financial condition of a company will be useful in the investment decision-making process that provides benefits in the future. A good financial statement must be tested for truth, can be considered, and must be clear, understandable, timely and it also must be completed.

Hartono *et al.* (2017) revealed that the effect of profitability on investment decisions (IC) is significant with a positive value direction. The results of this study have a positive value supporting the theory (Kasmir, 2015) which stated that profitability is the company's ability to make a profit. High profitability will give a positive signal to investors that the company is in a favorable condition. This can attract the investors to own shares of the company that is conducting the IPO.

H_3: Financial statement affects investor's investment decisions.

The effect of Representativeness Bias on Investor Decisions

This bias results in investment decisions that are too fast without an in-depth analysis which only relying on past experience that is considered to be able to represent or be a reference for current investment decisions (Pompian, 2012). An investor's tendency to understand an event from past experience factors can lead an investor to quickly make a decision without in-depth analysis. This causes them to experience representativeness bias.

Sina (2014) in a study tested the representativeness bias and then found that the majority of respondents tended to experience representativeness bias when making financial decisions. Equally, Boussaidi (2013) in a study conducted in the Tunisian stock market explained that representativeness bias is under uncertainty in which investors tend to believe that the track record of the company's outstanding performance assumes that the company will continue to produce outstanding performance in the future. This means they overreact to similar information. Accordingly, the purpose of this study was to examine the stock market in Tunisia by focusing on the announcement of accounting earnings as an event that can cause the potential to cause excessive reactions that have a positive effect. Shefrin (2007) found results that representativeness bias did not affect investment decisions. It means that when someone receives information will try to do reasoning appropriately.

H_4: Representativeness bias affects investor's investment decisions.

The Effect of Availability Bias on Investor's Investment Decisions

Availability bias is an investment decision made on the ease and availability (the easiest

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and available to do is the final decision) in which investors often believe that other investors will also do the same thing (Pompian, 2012). The continuity of the IPO process sometimes will lead investors to give a high rating only from the availability of information and the ease of accessing it to invest in the IPO process.

Sadi *et al*. (2011) in research with a sample of 200 investors in the Tehran stock market showed that there is a positive relationship between availability bias and financial decision-making (investment). Trang (2015) stated that the bias of financial behavior namely availability bias does not affect investors in making investment decisions in purchasing company shares because they are always full of consideration of the information received. They do not want to be influenced by rumors of information released by certain parties for their benefit. Accordingly, investors always check the information for the accuracy of the data obtained.

H_4: Availability bias affects investor's investment decisions.

The Effect of Self-Control Bias and Overconfidence Bias on Investor Decisions

In making investment decisions, investors must be confident with their ability to determine investment decisions. But it must not make the investors overdo their self-confidence too much. This can cause an overreaction to the capabilities and information received and previously owned. Sometimes it cannot be denied that overconfidence bias can affect the decisions. Overconfidence bias is an investment decision made because an individual's self-confidence is too excessive for his predictions and information (Pompian, 2012). So that the investors highly believe that the decisions they make are right and provide future benefits.

According to Harjito (2009) people who are too confident in their abilities or in predicting the success of their investment without paying much attention to the role of others around them will often be detrimental to investors because their behavior will be difficult to control in making decisions. Then this can cause self-control bias. Self-control bias means investors do not have adequate discipline on the investment process and objectives made by themselves (Pompian, 2012).

Riaz and Iqbal (2015) conducted a study of Self-Control Bias and Overconfidence Bias. This research explored the impact of behavioral bias on investment decisions. Data for behavioral bias and investment decisions were collected from investors on the Karachi Stock Exchange through a questionnaire. A total of 100 questionnaires were distributed but only 50 questionnaires were received back. It was found that four biases of overconfidence, self-control, the illusion of control, optimism had a positive result in which investors in the Pakistani capital market were irrational because they were biologically and emotionally biased.

H_6: Overconfidence Bias affects investor's investment decisions.

H_7: Self-Control Bias affects investor's investment decisions.

RESEARCH METHOD

Population and Sample

In this research, the population was investors in Yogyakarta. The sample collection technique used purposive sampling where the selection of samples was based on certain characteristics and the sample is based on the needs. The first criteria were listed in the Yogyakarta Beginner's Investor Community (called ISP), the Indonesia Stock Exchange Corner at Universitas Islam Indonesia, Phintraco Sekuritas Yogyakarta, Mirrae Asset Sekuritas Yogyakarta, Indonesia Stock Exchange of Yogyakarta, OSO Securities UIN Sunan Kalijaga, and several University Investment Galleries. The second criteria were investors are over 17 years old because this age is considered productive age (having views and future life plans) and at this age someone certainly aware of the importance of investing to improve the prosperity in the future and can already make choices. Third, investors are male or female. The number of samples was 100 respondents.

Table 1: Variable And Variable Measurement

No.	Variable	Scale	Indicator
1	*Underwriter Reputation*	Liker't Scale	Experience in handling IPO companies, ability, and high moral burden to guarantee the price given, and expertise in presenting prospectuses or the sustainability of the IPO.
2	CEO reputation		Experience and position of a CEO, track record of performance during his tenure as CEO, and personality of a CEO and his education.
3	Financial Statement		The profitability generated by the company, the ability to meet financial leverage, and the effectiveness of the company in using its assets.
4	*Representativeness Bias*		Seeing the track record of performance as a guide to make investment decisions and improve company performance illustrates the company is good, past experience of investors, investment is only based on predictions.
5	*Availability Bias*		Investment decision making is only a willingness to accept existing information, believe that other investors will also do the same and ease of access to information, investment based on predictions.
6	*Overconfidence Bias*		Believe in own abilities and highly trust in experience and knowledge. Overconfidence bias causes investors to overestimate their knowledge, underestimate risk, and exaggerate their ability to control an event.
7	*Self Control Bias*		Willingness to postpone the results of investments made, and willingness to be careful in minimizing risks in investment activities.
8	*Investment Decision*		Investment decision making is the use of assets owned to make risky investments, know about investing in shares, make investment and investment decisions based on predictions from investors.

RESULT AND DISCUSSION

Analysis of Descriptive Statistic Data

Table 2 is an overview of research data after tabulation and processed used SPSS version 2.1.

Table 2. Descriptive Statistic

	N	Minimum	Maximum	Mean	Std. Deviation
UR_X_1	100	5	25	18.63	3.544
CR_X_2	100	5	25	18.50	4.150
LK_X_3	100	5	25	20.28	3.562
RB_X_4	100	5	24	16.73	3.041
AB_X_5	100	9	24	18.72	2.917
OB_X_6	100	10	25	19.29	3.056
SCB_X_7	100	10	25	19.02	2.923
KI_Y	100	10	25	19.85	2.812
Valid N (listwise)	100				

Source: Output of SPSS 16. (Data processed by the researcher) 2019

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Based on table 2, it is known that the number of respondents in this study was (N) 100 people. Of these 100 respondents, the underwriter reputation (UR) variable had a minimum value of 5, a maximum value of 25, and an average value of 18.63 with a standard deviation of 3,544. The CEO reputation (CR) variable had a minimum value of 5, a maximum value of 25, and an average value of 18.50 with a standard deviation of 4,150. Variable of Financial Statement (called LK) had a minimum value of 5, a maximum value of 25, and an average value of 20.28 with a standard deviation of 3,562. The variable representativeness bias (RB) had a minimum value of 5, a maximum value of 24, and an average value of 16.73 with a standard deviation of 3.041. Variable of availability bias (AB) had a minimum value of 9, a maximum value of 24, and an average value of 18.72 with a standard deviation of 2,917. Variable of overconfidence bias (OB) had a minimum value of 10, a maximum value of 25, and an average value of 19.29 with a standard deviation of 3,056. Variable of self-control bias variable (SCB) had a minimum value of 10, a maximum value of 25, and an average value of 19.02 with a standard deviation of 2,923. Variable of investment decision (KI) had a minimum value of 10, a maximum value of 25, and an average value of 19.85 with a standard deviation of 2,812. The standard deviation value of each variable that was away from 0 meant that the distribution of this data was quite diverse.

Discussion

The questionnaire had been tested for validity using product-moment and had passed the validity test. Accordingly, with the reliability test and had passed the post-test, the questionnaire could be used in this study.

Then a regression analysis was performed to determine the significance of the effect of the independent variables on the dependent variable partially (t test), with a significance level of 0.05. Hypothesis test results appear in table 3.

Table 3: Hypothesis testing result

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.099	1.681		1.843	.069
	UR_X_1	.085	.060	.108	1.419	.159
	CR_X_2	.027	.059	.039	.458	.648
	LK_X_3	-.028	.070	-.035	-.397	.692
	RB_X_4	.012	.069	.013	.169	.866
	AB_X_5	.132	.091	.137	1.447	.151
	OB_X_6	.377	.085	.410	4.429	.000
	SCB_X_7	.278	.088	.289	3.166	.002

a. Dependent Variable: Investment Decision

Source: Output of SPSS 16. (Data were processed by the researcher in 2019)

Table 3 shows the results of the partial test between the dependent variable and the independent variable. It can be concluded that :

The Effect of Underwriter Reputation Variable on Investor Decisions

In this study, it was found that the underwriter reputation variable had a significant value that was higher than alpha's which was 0.159 > 0.05. It can be concluded that H_1 is rejected which means that the underwriter reputation variable does not affect investment decision making in the IPO process. This shows that investors in Yogyakarta are not affected by underwriter reputation.

The underwriter is an emission guarantor used by the issuer to issue shares in the capital market. Therefore, the underwriter seeks to be able to attract investors to buy shares. An underwriter who dares to take greater risk with an agreed contract provides benefits for the issuer in maintaining the continuity of the IPO process. From the investor's view, underwriters who can set low prices and convey clear information will be rated with a good reputation (Wahyudi, 2003). But in this research, investors in Yogyakarta in determining investment decision-making were not affected to determine investment decisions even though the underwriter set a low price in the IPO process. Investors in Yogyakarta, in this case, proved not only to rely on the reputation of the underwriter in guaranteeing the price and sustainability of the roadshow process of the IPO process but also conducted a more in-depth analysis of the information available and received to determine the decision. Investors in Yogyakarta strive to understand and analyze the information submitted by underwriters by examining the prospectus provided by the issuer. They try not to be subjective in conducting assessments so that they could make proper investment decision-making. The results of this study are supported by Hadri (2001) and Trisnawati (1998). However, it is not supported by Wang *et al.* (2003).

The Effect of CEO Reputation Variables on Investor's Investment Decisions

In this study, it was found that the CEO reputation variable had a significant value that was higher than alpha's which was 0.648 > 0.05. It can be concluded that H_2 is rejected which means the CEO reputation variable does not affect investment decision making in the IPO process. This shows that investors in Yogyakarta are not affected by the CEO reputation.

The CEO is responsible for determining the strategic direction and future success of the company, managing performance and influencing people inside and outside the company so that company goals can be achieved. The company's performance is a reflection of top management (Hambrick and Mason 1984). However, this study showed that CEO reputation has no effect or the investors in Yogyakarta in the taking process are not based on performance produced by the CEO of an IPO company. In the establishment of a company, the company conducting the IPO is previously a private company in which the investors do not know how the CEO of the IPO company in managing the company's management and in dealing with and handling the pressure conditions outside the company. According to Aini (2008) at an IPO company in Indonesia, a large company may not necessarily reduce the risk from investors. This is because the tendency of greater companies will be followed by a more complex environment which makes investors unable to know how the company's management in responding to the complexity of public trade which will increase the risk of the company. The possibilities of risk that occur in the future will be anticipated by investors with caution in conducting an internal assessment of the company's IPO. Based on this, the need to analyze a company, for instance regarding the type or size of the industry from an IPO company because each company cannot be compared with each other. The investors try to get accurate information and know the potential of the IPO company in the long term. So, the investors in Yogyakarta try not to be subjective in evaluating existing information. The results of this study are also supported by Aini & Sumiyana (2008) and Trisnawati (1998). However, it is not supported by Cohen & Dean (2002) and Certo (2013).

The Effect of Financial Statement Variables on Investment Decisions of Investors

In this study, it was found that the financial statement variables had a significant value that was higher than alpha's which was 0.692 > 0.05. It can be concluded that H_3 is rejected which means that the financial statement variables do not affect investment decision making in the IPO process. This shows that investors in Yogyakarta are not affected by financial statements.

The financial statement is information about the state of the company, both from revenues and costs, that is a concern for investors to find out the quality of the company and its financial condition. However, the results revealed that although the financial statement is a preference in seeing the condition of the company, this study found that the financial statement does not have a significant effect on the investment decision-making process. Investors continue analyzing the information contained in the financial statements. The aim is to reduce uncertainty to get the right decision. Then it is necessary to gather information as much as possible. It can be noted that the investors in Yogyakarta have a goal not to get quick profits, but to increase investments that remain in a relatively long period (long-term investment) to get a more decent life in the future. Moreover, coupled with information from the prospectus presented by the issuer as revealed by Rao (1993) that when an IPO occurs investors have limitations on prospectus information that only contains information from one to three years of financial statements. The result of this study is also supported by Scott (2003). But it is not supported by Hartono *et al.* (2017).

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Effect of Representativeness Bias Variable on Investor's Investment Decisions

In this research, it was found that the representativeness bias variable had a significant value that was higher than alpha's which was 0.866 > 0.05. It can be concluded that H_4 is rejected which means the representativeness bias variable does not affect investment decision making in the IPO process. This shows that investors in Yogyakarta are not affected by representativeness bias.

Representativeness bias is a bias in financial behavior for making investment decisions that are too fast without in-depth analysis, relying only on past experience that is considered to be able to represent or be a reference for current investment decisions (Pompian, 2012). It is obtained that investors in Yogyakarta do not experience the presence of bias in making investment decisions. According to Pompian (2012) representativeness bias is a cognitive bias that can be minimized through financial education and investment. This is conducted to make investors not biased in financial behavior. A study explained that investors in Yogyakarta do not make their past experiences a reference in their decision-making. They try to receive the information obtained at IPO and keep analyzing the information obtained. Investors in Yogyakarta are full of consideration in making investment decisions by checking the accuracy of the information they receive. Investors in investment decision-making must also consider other aspects, such as financial readiness and motivation to make investments so they can determine the right investment decision. Shefrin (2007) stated that an investor having the goal of investing for the long term in receiving information will conduct an analysis or reasoning on the choices that will be taken and consider other aspects. This result is supported by Kengatharan & Navaneethakrishnan (2014) and Shefrin (2007). But it is not supported by Boussaidi (2013) and Sina (2014).

Effect of Availability Bias Variables on Investor's Investment Decisions

In this study, it was found that the availability bias variable had a significant value that was greater than alpha's which was 0.151 > 0.05. It can be concluded that H_5 is rejected which means the availability bias variable does not affect investment decision-making in the IPO process. This shows that investors in Yogyakarta are not affected by availability bias.

Availability bias is one of the bias behavioral finance. Availability bias is an investment decision made solely on the ease and availability (the easiest and available to do is the final decision) (Pompian, 2012). However, although information has been properly available, investors in Yogyakarta make investment decisions unaffected by the information available. In other words, investors try to anticipate the risks that might occur by trying to do an in-depth analysis of the information obtained. The new information received does not simply affect investors' thoughts in assessing IPO companies. Investors in Yogyakarta try to determine the choices of various alternatives available by managing the information obtained for the accuracy and reliability of the information received. This reliable and accurate information obtained is the most important thing that can support the success of investors in making investment decisions. According to Pompian (2012), availability bias is a cognitive bias that can be minimized through financial education and investment. This is done of course so that investors are not biased in financial behavior. The results of this study are supported by research by Trang (2015), Kengatharan & Navaneethakrishman (2014) and Khan (2015). However, this result is not supported by research by Sadi et al (2011).

Effect of Overconfidence Bias Variables on Investor's Investment Decisions

In this study, it was found that the overconfidence bias variable had a significant value that was lower than alpha's which was 0.000 < 0.05. It can be concluded that H_6 is accepted, which means the overconfidence bias variable affects investment decision-making in the IPO process. This shows that investors in Yogyakarta are affected by overconfidence bias.

Overconfidence bias is one of the bias behavioral finance. Someone experiences this bias in determining investment decisions because of investor confidence that is too excessive for predictions and information they have (Pompian, 2012). This feeling of excessive self-confidence can endanger an investor in the decisions-making. This can result in a misinterpret of investors' capabilities and information. The more investors are overconfidence, the more they will make investment decisions based on the confidence they have. Investors in Yogyakarta are too confident in their abilities and knowledge in determining their investment choices. This excessive self-confidence affects investors in Yogyakarta in evaluating available information. It makes the investors confident to make the right decision with their abilities and knowledge and it can provide benefits in the future. The results of this study were supported by Riaz & Haroon (2015), Nofsinger (2005), Prhadana (2018) and Trehan & Sinha (2016). However, this result is not supported by Dewi (2010).

The effect of the Self-Control Bias Variable on Investor's Investment Decisions

In this study, it was found that the self-control bias variable had a significant value that was lower than alpha's which was 0.002 < 0.05. It can be concluded that H_6 is accepted which means the self-control bias variable affects investment decision-making in the IPO process. This shows that investors in Yogyakarta are affected by self-control bias.

This self-control is one of bias behavioral finance. Self-control is related to how individuals control emotions and impulses from themselves so that they can make decisions and take effective actions according to ideal standards and abilities (Hofmann, 2012). A person who experiences self-control bias is difficult to control. This is sometimes difficult for them to decide as a result of not having the discipline or not being able to control emotions which later it will affect inappropriate actions. Investors in Yogyakarta who tend to the overconfidence of their abilities and knowledge will have difficulty to control themselves in their actions. The result of this study is supported by Riaz & Haroon (2015). But it is not supported by Chandra (2014).

CONCLUSION

Based on data collected from various securities institutions in Yogyakarta through questionnaires, 100 respondents obtained from purposive sampling results are connected with criteria in the sample used. The results of this study indicate that underwriter reputation, CEO reputation, financial statements, representativeness bias, and availability bias do not affect investment decision-making during the IPO process. While overconfidence bias and self-control bias have a significant positive effect on investment decision-making during the IPO process.

According to this research, the authors suggest several points for further research including to increase the number of research samples to produce more objective results and add the characteristics of the respondents to be used. Also, the next researchers can add control variables such as company size and company age or others to better refine the results of the study to be more detailed.

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