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Cross-influence of Risk, Return, and Governance on Decision-Making in Hydropower Investments

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Abstract

The sustainable growth of an economy pivots on a robust financial system, particularly in the context of capital availability. This study analyzes the behavior of investors towards initial public offerings (IPOs), focusing on the hydropower development sector in Nepal. The research explores the multifaceted relationship between factors such as risk, return, and governance on investor behavior, considering elements like Idiosyncratic risk (IR), timing of issue (TIPO), Bandwagon effect (BE), expected return (ER), sectoral performance (SP), corporate governance (CG), pre-issue financial health (PFH), and marketability (MKT). Additionally, sociodemographic variables and their connection to investor behavior are examined. Employing a descriptive research design, the study involves a sample size of 392 individuals, selected through a convenient sampling method. The study's main finding documented that idiosyncratic risks, expected returns, and corporate governance stand out as crucial factors influencing investment decisions ($P < 0.05$). Notably, the regression analysis indicated the absence of a significant impact from market risks ($P > 0.05$), including the bandwagon effect and IPO timing, on investor behavior towards hydropower IPOs. This finding suggests that Nepalese investors prioritize returns and organizational governance over market risks, despite having significant concerns regarding idiosyncratic risk. The analysis also reveals significant associations between investor behavior and sociodemographic variables like age, education, occupation, and primary investment objectives ($P < 0.05$). This study offers valuable insights and implications for investors seeking to align investments with their goals. Hydropower developers should prioritize investor protection and transparency, while regulators must enhance disclosures, shareholder accountability, and project oversight.

Keywords: Investors' Behavior, Idiosyncratic Risk, Bandwagon Effect, Performance, Governance
JEL Code: D81, G32

1. INTRODUCTION

The robustness of a nation's economic expansion is inextricably linked to the resilience of its financial system. A strong and resilient financial environment plays a crucial role in facilitating the movement of resources from areas of surplus to areas of deficit, hence stimulating economic growth. At the core of this discussion lies the capital market, a

pivotal platform that facilitates firms to raise funds through mechanisms like Initial Public Offerings (IPOs). According to Szyszka (2014), the success of an initial public offering (IPO) relies on careful and thorough planning, as well as strategic timing. The convergence of various factors, including market conditions, corporate preparedness, and the decision to go public, plays a crucial role in this process.

In the given backdrop, the hydropower industry holds significant importance in shaping Nepal's economic dynamics. Policy reforms have gradually facilitated increased involvement of private, public, and foreign sectors in the development of hydropower, fostering technological advancements and leading to increased attention on Industry 4.0, as highlighted by Rajbhandari et al. (2021). The Hydropower Policy of 1992 and the Hydropower Policy of 2001 have effectively enabled the participation of private and foreign sectors through Public-Private Partnerships (PPPs) and the mobilization of internal capital markets. The aforementioned regulations have also facilitated the occurrence of Initial Public Offerings (IPOs) carried out by independent power producers (IPPs). These policies have also paved the way for Initial Public Offerings (IPOs) by independent power producers (IPPs), stipulating that a minimum of 30% of the paid-up capital must be floated to the public, following specific allocation criteria (Securities Registration and Issuance Regulation, 2008).

Nepal has made significant advancements in the domain of hydropower development, owing to the implementation of this particular framework. For instance, the Chilime hydropower project stands as a milestone, being the first project built under the PPP model. Currently, 120 IPP-owned projects, with a total installed capacity of 2,613.90 MW, are under construction, and 137 IPP-owned projects, with an installed capacity of 2,869.38 MW, are in different stages of development (NEA, 2019). In terms of IPOs, 33 hydropower developers have gone public, raising NPR 53.70 billion from the public (NEPSE, 2020). This is particularly important given Nepal's ambitious hydropower development targets outlined in its fifteenth periodic plan and alignment with Sustainable Development Goals (SDGs). However, the dynamics have taken a turn when it comes to investor confidence in hydropower IPOs. Despite the history of oversubscribed IPOs in Nepal, confidence seems to be deteriorating. For instance, the subscription rate for the IPO of Shiva Shree hydropower company (SSHL) was a mere 21.51%, and the issue remained unsubscribed by underwriters (NEPSE, 2020). Against this backdrop, it is imperative to explore the factors influencing investor behavior toward IPOs of hydropower developers.

The process of investor decision-making involves a multifaceted interaction between economic and psychological factors. The decisions made by individuals are influenced not only by economic indicators such as earnings estimates, financial statement

conditions, and pricing patterns but also by many unanticipated events and behavioral biases (Karki, 2020, 2022; Sarwar & Afaf, 2016; Devkota et al., 2023). In addition, it is worth noting that corporate governance significantly influences investor interest in IPOs and investment (Bell et al., 2014). The balance of safety, liquidity, and capital appreciation further influences investor behavior (Srinivas & Rao, 2017). Historically, the Nepalese IPO market has seen high investor enthusiasm due to limited investment opportunities and the prospect of high initial returns (Gurung, 2017). The efficient functioning of the primary market is not only advantageous for investors but also echoes in the broader economy (Sapian et al., 2013). In line with Nepal's development objectives, more capital from the public is essential for infrastructure financing, hence emphasizing the importance of a sound and optimistic capital market.

Despite these considerations, recent responses to hydropower IPOs present an alternative perspective. Subscription proportions for IPOs like Himal Dolakha Hydropower Company and Shiva Shree Hydropower Company stood at 39.74% and 21.48%, respectively, signaling a decline in investor confidence (NEPSE, 2020). This decline poses a challenge to the hydropower sector's significant capital requirements and underscores the need for comprehensive research into investor perspectives. Thus, the purpose of this study is to explore the reasons behind the sluggish response to hydropower IPOs. It focuses on the general public's perception and declining interest in these offerings. Specifically, this study has twofold objectives. *Firstly,* it aims to investigate the factors contributing to the sluggish investor response and under-subscription of hydropower IPOs. *Secondly,* to identify the most influential factor impacting investor behavior towards hydropower IPOs. In pursuit of its objectives, this study analyzed the determinants that influence investor sentiment toward initial public offerings (IPOs) of hydropower developers. This will ultimately contribute to a greater understanding of the complexities of Nepal's capital market and offer insightful perspectives on how to strengthen investor confidence in the initial public offering (IPO) industry. The research is structured as follows: Section 2 reviews relevant literature, providing context. Section 3 details the research methodology, focusing on the empirical approach. Section 4 outlines the results and discusses their implications. Finally, Section 5 concludes the paper.

2. LITERATURE REVIEW

This study investigates the public's perceptions and the factors that influence investment decisions in hydropower' Initial Public Offerings (IPOs). To provide a robust framework for this research, a review of the existing literature has been conducted, covering various dimensions of IPOs, investor behavior, market dynamics, risk, return, governance, and related determinants.

2.1 Risk

Risk constitutes a fundamental aspect of investment decision-making. The study explores idiosyncratic and market risks as the subjective factors of investment decision-making.

Idiosyncratic Risk

Traditionally, the Capital Asset Pricing Model (CAPM) has focused on systematic risk, overlooking firm-specific (idiosyncratic) risk, which can't be diversified away. However, in practical scenarios where portfolio diversification isn't feasible, investors must account for idiosyncratic risk alongside systematic risk in predicting expected returns (Fazil & Ipek, 2013; Karki & Aryal, 2019). The study highlighted idiosyncratic risk as a significant component of total volatility. Despite its prominence, idiosyncratic risk doesn't predict future returns, rendering firms with higher idiosyncratic risk less appealing to investors with limited stock holdings. Moreover, external and internal risk factors, including market, legal, and operational risks, as well as management and technical risks, influence investor sentiment and the long-term survival of IPO firms (Mousa et al., 2014). Both external and internal risk factors positively correlate with the probability of firm failure, impacting investor confidence. Beaulieu and Bouden (2015) explore the implications of firm-specific risks on the IPO market cycle. They find that high levels of idiosyncratic risk may deter IPO candidates, resulting in low expected returns and reduced investor demand. Idiosyncratic risk negatively impacts stock returns, subsequently reducing retail investor interest, a trend observed especially among younger and educated individuals (Beaulieu & Bouden, 2015; Bhandari et al., 2021). Further insights into idiosyncratic risk come from Hur and Luma (2017), who observe a negative association between idiosyncratic volatility and unrealized stock gains. This negative relationship is particularly pronounced for stocks with high individual investor holdings, indicating the impact of dynamic loss aversion driven by idiosyncratic risk. Barberis and Huang (2001) contribute to understanding investor behavior regarding idiosyncratic risk, highlighting the phenomenon of dynamic loss aversion. They argue that investors exhibit varying risk aversion levels based on individual stock performance, leading to excess stock price volatility.

Market Risk

Investment decisions are inherently influenced by various forms of market risk. As highlighted by Bikhchandani and Sharma (2001) and Bhattarai et al. (2020), individuals' behavior is often influenced by current market movements and sentiments. This study explores two critical aspects of market risk: the Bandwagon Effect and the Timing of IPO.

Bandwagon Effect

The bandwagon effect, driven by the tendency to conform to others' actions, significantly influences investor decision-making in IPOs. Bikhchandani and Sharma (2001) highlight its prevalence in emerging markets, where weak reporting requirements and lower accounting standards escalate information cascades and reputational herding. This resonates with findings by Dahal et al. (2020) showing no significant impact of management accounting practices on organizational performance in the Nepalese context. Yong (2011) demonstrates the impact of the winner's curse hypothesis and the bandwagon effect on IPO initial returns in Malaysia, underscoring the influence of informed investor participation on stock performance. Wang et al. (2017) explore herd behavior in Taiwan's IPO market, revealing investors' propensity to follow subscription demand information. Herd behavior amplifies the winner's curse effect, leading to short-term overreactions and negative long-term returns. Doherty (2018) synthesizes the literature on informational cascades in financial markets, highlighting the role of IPO pricing in shaping investor behavior. Underpriced IPOs exploit information cascades, while overpriced IPOs face market rejection due to early investors' influence. Hence, the bandwagon effect and information cascades significantly impact investor decisions in IPOs, particularly in less efficient markets, emphasizing the need for careful analysis amidst market exuberance.

Timing of IPO

The timing of an Initial Public Offering (IPO) is a critical determinant of its success, exerting a profound influence on investor behavior and market dynamics. Research in this domain sheds light on the intricate interplay between IPO timing and investor decision-making. Boubaker and Mezhoud (2012) underscore the significance of market conditions in shaping IPO timing decisions. Their findings suggest that companies are more inclined to pursue IPOs during bullish periods characterized by high market activity and profitability. Conversely, younger companies and those facing high borrowing costs tend to shy away from IPOs. In a similar vein, Szyszka (2014) identifies market mispricing and investor sentiment as key drivers of IPO timing. Firms strategically capitalize on favorable market conditions and historical returns to optimize their IPO issuance, particularly during bullish market phases.

Batnini and Hammami (2015) further support the importance of market conditions, highlighting a significant relationship between past stock market returns and IPO activity. Favorable market sentiments stimulate IPOs, underscoring the need to analyze investor sentiment indices to gauge market dynamics accurately. Mayur (2016) delves deeper into the behavior of IPO issuers, revealing a tendency to exploit investor over-optimism during hot market periods. Firms strategically time their IPOs to maximize proceeds, leveraging pre-IPO profit margins and market exuberance.

Building upon this, Baluja and Singh (2019) validate the concept of the "window of opportunity," noting that many IPOs during hot market phases lack the resilience to withstand market pressures. They emphasize the importance of analyzing market-specific variables such as issue size and lead manager reputation in understanding IPO survival and performance. Mousa et al. (2019) further underscore the pivotal role of IPO timing in shaping investor decisions. Investors keenly assess the timing of new issues and anticipate their aftermarket performance, highlighting the interconnectedness of IPO timing and investor behavior.

2.2 Return

Investment decisions are based on the anticipation of future gains, a concept elucidated by Avram et al. (2009) who define investment as current expenditure aimed at yielding future returns. Factors influencing this decision include the expected return, sectoral performance, cost of funds for investment, and the means of financing, as highlighted by Harcourt et al. (1967). This study explores the domain of returns, focusing specifically on two critical factors: expected return and sectoral performance.

Expected Return

Expected return serves as a critical factor guiding investor decision-making in IPOs, reflecting investors' desire for capital gains and periodic returns on investment. Empirical research sheds light on the determinants of expected return and its influence on investor behavior. Eng and Aw (2000) find a positive association between investor demands for IPOs and expected stock returns, emphasizing the importance of earnings yield and expected returns in driving investor interest. Kaustia and Knupfer (2008) explore the link between individual investors' decision to participate in IPOs and past IPO returns. Their findings underscore the role of reinforcement learning, with positive past experiences enhancing investors' willingness to invest in future IPOs. Moreover, Mumtaz et al. (2016) analyze predictors of long-run IPO performance, highlighting factors such as leverage, aftermarket risk, and promoter shareholding. These factors influence expected returns and subsequent investor behavior in IPO markets. In line with these findings, Srinivas and Rao (2017) and Sharma et al. (2017) emphasize the importance of expected gains in investor decision-making. Factors such as capital appreciation, safety in investment, and dividend payments contribute to investors' expectations of returns. Lastly, Dhamija and Arora (2017) identify various factors influencing IPO performance and subsequent investor demand. Government ownership, lead manager reputation, market sentiments, and issue size are among the determinants shaping investors' expectations of returns in IPO investments.

Sectoral Performance

Investor sentiment towards specific sectors profoundly impacts stock returns and investor holding patterns, thereby influencing primary market dynamics. Mauer and Senbet (1992) reveal that sectoral performance in the secondary market significantly influences IPO pricing, with industry classification dictating variability in underpricing and investor demand. Neupane et al. (2014) delve into the relative importance of firm quality and market sentiment for IPO investors, highlighting retail investors' greater reliance on market sentiment. Institutional participation amplifies retail investor engagement, particularly when institutional investors exhibit strong interest. Khan and Ramakrishnan (2018) explore IPO long-run performance determinants in Pakistan, underscoring the influence of various factors at the firm, industry, and market levels. Initial returns, underwriter reputation, and market conditions emerge as pivotal determinants of long-term performance. Rahman and Cheyahya (2019) focus on factors affecting aftermarket returns, emphasizing the pivotal role of market conditions. Long-term aftermarket returns are significantly influenced by overall market performance, guiding investor decisions on IPO entry points.

2.3 Governance

Investment decisions are profoundly shaped by governance considerations, reflecting investors' assessment of a firm's integrity and performance. This study explores the issues of governance, focusing on three pivotal factors: Corporate Governance, Pre-issue Financial Health, and Marketability.

Corporate Governance

Corporate governance serves as a key predictor of firm value, significantly influencing investor perceptions and decisions in the IPO market. Chang and Wei (2011) demonstrate that governance strength enhances investor willingness to pay for stocks and perceived firm reporting credibility, particularly among experienced investors. Darani (2012) empirically validated the positive impact of corporate governance on Malaysian IPO returns, highlighting its role in enhancing investor confidence and aftermarket performance. Sundarasen et al. (2017) investigate institutional factors' impact on IPO initial returns, emphasizing the role of investor protection and transparency in bolstering investor confidence. High-quality governance practices, including board independence and financial disclosure, contribute to IPO survival and investor trust. Qeisari and Ahmadi (2019) further affirm the positive relationship between corporate governance and firm value, highlighting the importance of internal and external governance components in maximizing shareholder value.

Pre-Issue Financial Health

One critical aspect influencing investor behavior on IPOs is the pre-issue financial health of the issuing firm. This refers to the overall financial condition, revenue growth opportunities, bankability, and efficiency of the firm before going public. Research by Marshall (2004) revealed a positive correlation between the financial health of IPO issuing firms and the degree of underpricing at the time of issuance, indicating that healthier firms experience greater underpricing. Similarly, studies by Deb and Marisetty (2010) and Shivaprasad and Kallanagouda (2013) highlighted the significance of IPO grading in signaling firm quality, which influences investor demand and subsequent market performance. Additionally, factors such as debt-to-equity ratio, company philosophy, future projections, and financial performance play crucial roles in shaping investor sentiment toward IPOs. High debt-to-equity ratios signal riskier investment options, impacting investor subscription levels (Banerjee and Rangamani, 2015). Furthermore, the growth opportunities of issuing firms significantly influence both initial and long-term aftermarket performance, underscoring the importance of information transparency and the use of IPO proceeds in investor decision-making (Rahman and Cheyahya, 2019).

Marketability

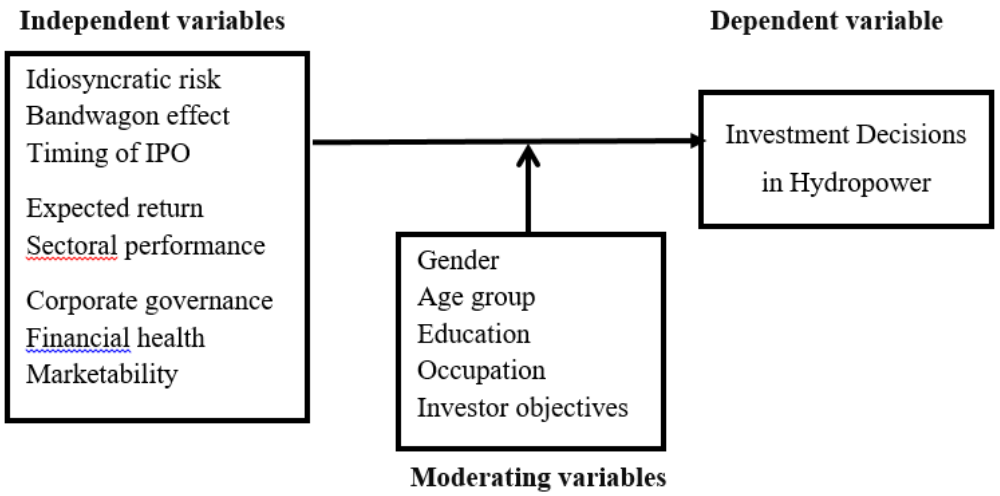
Marketability, or the ease of selling an asset, exerts a significant influence on investor behavior and market dynamics in IPOs. Research in this realm sheds light on the multifaceted relationship between asset liquidity and investor decision-making. Bajaj et al. (2001) emphasize the importance of marketability, noting that illiquidity can incur costs for investors by limiting capital allocation opportunities and hindering portfolio rebalancing. Scholz et al. (2015) delve into the impact of asset liquidity on equity returns, revealing investors' expectations of a risk premium from companies with low asset liquidity, particularly during economic downturns. Asset liquidity emerges as a critical consideration for investors in their investment decisions. Asem and Cui (2016) explore the interactive effects of stock liquidity and investor sentiment on SEO price discounts, highlighting the deeper price discounts for illiquid stocks during periods of reduced sentiment. They underscore the role of liquidity in shaping investor perceptions and market outcomes. Moreover, marketable securities are associated with underpricing at IPO issuance, leading to heightened aftermarket liquidity and investor participation (Chang et al., 2008; Ramirez et al., 2011; Hahn et al., 2013; Sapian et al., 2013). Underpriced stocks attract frequent trading with minimal price impact, enhancing liquidity dynamics and market efficiency (Devkota et al., 2021). In essence, the liquidity of a stock significantly influences investor behavior and market dynamics in IPOs. A liquid stock enables investors to execute trades promptly at competitive prices, fostering market participation and facilitating capital formation.

In Nepal, common stocks represent the most popular form of investment due to the limited options available to investors. However, the primary market remains unsystematic and vulnerable, with investors predominantly favoring sectors such as banking and finance (Kadariya, 2012, Gurung, 2017; Karki, 2017, 2018). These studies shed light on key determinants of stock pricing and Nepalese investors' behavior, revealing a reliance on heuristic decision-making, herding behavior, and overconfidence. Investment decisions are often influenced by media, friends, and the perception of market movements, with a focus on factors like liquidity, earnings potential, and dividend yield. Furthermore, Joshi (2018) emphasizes the role of information and reputation in investment decisions, highlighting the influence of company knowledge and social networks. While investors demonstrate some understanding of financial diversification and fundamental analysis, their decisions are influenced by education levels, age, and experience. Highlighting the research gap in prior studies, Sachdeva and Lehal (2023) identified the various influential factors in investment decision-making, emphasizing the importance of firm image. However, literature in Nepal lacks comprehensive studies on IPO responses and investment determinants beyond the financial sectors, which neglects other listed industries. The failure of a few Hydropower's IPOs highlights the crucial need to explore factors influencing investor responses in non-financial sectors. This study addresses this gap by examining the cross influence of risk, return and governance on hydropower investment decision making, hence improving understanding of investment behaviors in Nepalese context.

2.4 Theoretical Framework

This study proposes a theoretical framework to explore factors affecting investor behavior towards hydropower IPOs in Nepal. Drawing from the literature, key variables including pre-issue financial health, idiosyncratic risk, expected return, the timing of IPO, marketability, sectoral performance, corporate governance, and the bandwagon effect are considered. By analyzing these factors, the study aims to elucidate the reasons behind the poor responses of investors to hydropower IPOs and offer insights for market stakeholders. This study's theoretical framework is shown in Figure 1.

Figure: Theoretical Framework of the Study



This framework gives rise to specific research hypotheses that guide empirical investigations into the Building upon the theoretical framework, specific research hypotheses guide empirical investigations into the factors influencing hydropower investment decisions in Nepal:

H1: *Idiosyncratic risks (IR) significantly influence hydropower investment decisions.*

H2: *Market risks (BE & TIPO) significantly influence the hydropower investment decisions.*

H3: *Expected returns (ER and SP) significantly influence the hydropower investment decisions.*

H4: *Corporate governance (CG, PFH, & MKT) significantly influences the hydropower investment decisions.*

H5: *Demographic factors significantly impact investor decisions for hydropower IPOs.*

These hypotheses highlight the research's focal point, aiming to determine the effects of various factors on investment decisions in Nepal's hydropower IPOs. Rooted in the identified research gaps and theoretical framework, these hypotheses serve as guiding principles for empirical analysis and subsequent discussions.

3. RESEARCH METHODS

This study employs a research design integrating descriptive and causal-comparative approaches to thoroughly investigate individual investors' decision-making in hydropower IPO investments within the Nepalese stock market. Utilizing a survey

method, quantitative data serve as the primary data source, supplemented by informal interactions with relevant stakeholders in the hydropower sector.

3.1 Sampling and Data Collection: A sample size of 392 participants, encompassing diverse demographics, was selected to ensure representativeness. Data collection utilized a structured questionnaire distributed among investors engaged in hydropower IPOs, using convenience sampling for its efficiency and practicality. From 402 correspondences, 392 meaningful responses were obtained, establishing a robust foundation for analysis.

3.2 Questionnaire Design and Validation: The questionnaire was carefully constructed, incorporating various question formats to capture a wide range of investor perspectives on hydropower IPO investments. Extensive literature review and expert consultations ensured content validity, aligning questions with research objectives. A self-administered format minimized bias, while pilot testing, cross-checking, and Cronbach's Alpha analysis validated reliability. The inclusion of negative questions further enhanced reliability testing. Cronbach's Alpha values exceeding 0.6, as shown in Table 1, indicated consistent and reliable data collection.

Table 1: Reliability Statistics

Variables	Number of items	Cronbach alpha
Pre-issue financial health	5	0.712
Idiosyncratic risk	5	0.795
Expected returns	4	0.699
Timing of IPO	4	0.704
Marketability	4	0.688
Sectoral performance	4	0.721
Corporate governance	4	0.793
Bandwagon effect	4	0.923

3.3 Data Analysis Plan: The collected data was analyzed using descriptive and inferential approaches to achieve study objectives. A descriptive study investigated investors' responses to hydropower IPO investment decisions, with a special emphasis on risks, returns, and governance perspectives. SPSS software facilitated data analysis, allowing for a complete evaluation of investor sentiment.

3.4 Hypothesis Testing and Validity: To test hypotheses and validate questionnaire items, Pearson's correlation coefficient was used to measure their association with key

constructs. Correlation analyses assessed the nature and extent of correlations, while regression, t-test, and ANOVA tests were used to identify potential cause-and-effect relationships between individual investors' decisions in hydropower IPOs and chosen factors.

4. RESULTS

The data collected for this study were analyzed from the perspective of an individual investor through the administration of a structured questionnaire. The results are presented through tables and diagrams, which enhances the clarity of the data. Various analytical techniques including correlation coefficients, regression analysis, one-sample T-tests, and ANOVA were applied for in-depth analysis.

4.1 Demographic Analysis: The demographic statistics are illustrated in Table 2.

Table 2: Demographic Statistics

Particulars	Frequency (N)	Percentage (%)
Gender		
Male	221	56.4
Female	171	43.6
Total	*392*	*100.0*
Age Group		
Below 25	116	29.6
25-39	142	36.2
40-55	95	24.3
Above 55	39	9.9
Total	*392*	*100.0*
Education		
Secondary level	84	21.5
Intermediate level	68	17.3
Bachelors level	125	31.9
Masters and Above	115	29.3
Total	*392*	*100.0*
Occupation		
Self-employed	89	22.7
Employee	113	28.9
Student	95	24.2
Others	95	24.2

Particulars	Frequency (N)	Percentage (%)
Total	*392*	*100.0*
Objective for investment		
Initial return	161	41.1
Medium-term gains	100	25.5
Long term appreciation	131	33.4
Total	*392*	*100.0*
Holding of Hydro-shares		
0-3	93	23.7
4-6	126	32.2
7-10	87	22.2
Above 10	86	21.9
Total	*392*	*100*

The analysis in Table 2, revealed a diverse sample of 392 participants, comprising 221 (56.4%) male and 171 (43.6%) female respondents. Age distribution among participants varied, with 29.6% below 25 years, 36.2% between 25 and 39 years, 24.3% between 40 and 55 years, and 9.9% above 55 years. Regarding education, 21.5% had SLC or below, 17.3% had Intermediate level, 31.9% held bachelor's degrees, and 29.3% possessed master's degrees and above. Occupation-wise, 22.7% were self-employed, 28.9% were employed in government and private sectors, 24.2% were students, and another 24.2% were involved in various business activities.

Figure 2: Investors' Investment Motives

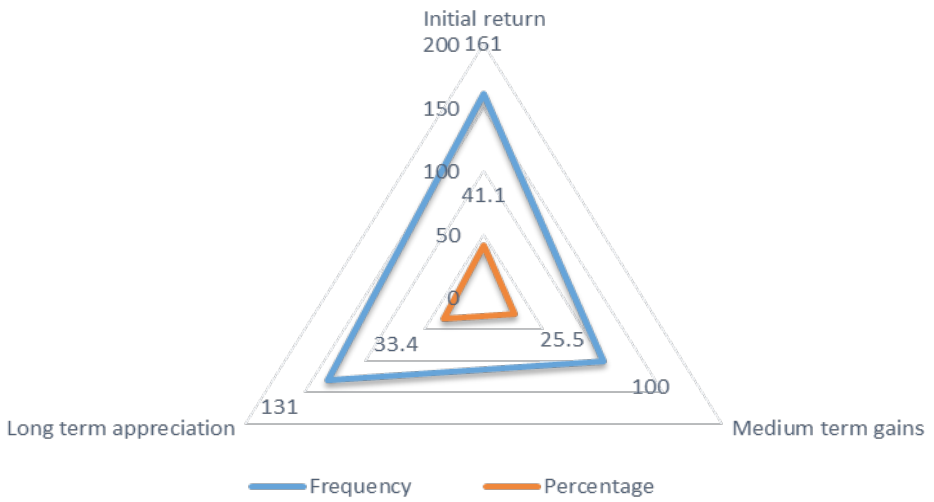


Figure 2 shows that out of 392 investors, 161 (41.1%) sought initial returns, 100 (25.5%) sought medium-term gains, and 131 (33.4%) sought long-term appreciation in stock prices. This highlights a majority preference for short-term returns among Nepalese investors. Regarding investor holdings in hydropower shares, out of 392 investors, 93 (23.7%) held between 0-3 shares, 126 (32.2%) held between 4-6 shares, 87 (22.2%) held between 7-10 shares, and 86 (21.9%) held above 10 shares of hydropower companies. These findings offer a comprehensive overview of the demographics, investment goals, and hydropower shareholdings among the respondents. They indicate varied levels of investor participation in hydropower investments, laying the groundwork for further exploration of the connections between these variables and investment choices in hydropower IPOs.

4.2 Descriptive Statistics

In this study, descriptive statistics have been utilized, incorporating measures like mean, minimum, maximum, and standard deviation. These statistical techniques are instrumental in extracting insights from the collected data, providing a clear understanding of its characteristics and distribution.

Table 3: Descriptive Statistics

Factors	Minimum	Maximum	Mean	Std. Deviation
Pre-issue financial health (PFH)	1.00	3.20	1.72	0.45
Idiosyncratic risk (IR)	3.00	5.00	4.25	0.53
Expected return (ER)	1.00	3.25	1.85	0.55
Timing of IPO (TIPO)	1.00	3.75	1.74	0.54
Marketability (MKT)	1.00	3.50	1.90	0.46
Sectoral performance (SP)	1.00	3.50	1.80	0.51
Corporate governance (CG)	1.00	3.75	1.79	0.57
Bandwagon effect (BE)	1.00	5.00	3.51	1.03
Investment Decision (ID)	1.00	4.00	2.00	0.77

Table 3 shows that the investors have somehow below average ($M < 2.5$) responses to all factors except idiosyncratic risk (4.25) and bandwagon effect (3.51). This depicts that investors are not satisfied with firm-level factors and market-level factors of hydropower developers.

4.3 Inferential Statistics

In this section, the research hypotheses are rigorously tested through inferential statistics. Various analytical techniques, including correlation, multiple regression analysis, ANOVA, and t-test, have been employed to examine the relationships and differences within the data.

Correlation Analysis

Table 4: Correlation Matrix of Independent Variables with Investment Decision in Hydropower IPO

	PFH	IR	ER	TIPO	MKT	SP	CG	BE	ID
PFH	1	-.572**	.515**	.116*	.340**	.540**	.312**	0.078	.626**
IR	-.572**	1	-.716**	-.137**	-.445**	-.628**	-.376**	-0.041	-.766**
ER	.515**	-.716**	1	.111*	.428**	.574**	.326**	.159**	.763**
TIPO	.116*	-.137**	.111*	1	.127*	.103*	0.084	0.026	.170**
MKT	.340**	-.445**	.428**	.127*	1	.302**	.235**	0.098	.531**
SP	.540**	-.628**	.574**	.103*	.302**	1	.382**	.138**	.680**
CG	.312**	-.376**	.326**	0.084	.235**	.382**	1	.104*	.481**
BE	0.078	-0.041	.159**	0.026	0.098	.138**	.104*	1	.142**
ID	.626**	-.766**	.763**	.170**	.531**	.680**	.481**	.142**	1

'**' and '*' denote that the correlation is significant at the 0.01 and 0.05 level (2-tailed).

In Table 4, the correlation analysis reveals significant relationships between various factors and investor behavior in hydropower IPOs. Pre-issue financial health exhibits a significantly positive correlation ($P < 0.01$), suggesting that investors favor firms with robust financial conditions, echoing findings from previous research highlighting the influence of financial health on IPO underpricing (Marshall, 2004). Conversely, idiosyncratic risk demonstrates a negatively significant correlation (($P < 0.01$), indicating that investors shy away from firms with higher inherent risk levels, consistent with studies emphasizing the impact of risk on investor sentiment and subscription levels (Fazil & Ipek, 2013). The expected return shows a positive correlation ($P < 0.01$), aligning with literature emphasizing investors' preference for higher returns and capital gains (Eng & Aw, 2000). The timing of IPO also displays a significant positive correlation ($P < 0.01$), suggesting that investors' decisions are influenced by the timing of hydropower IPOs, aligning with research emphasizing the importance of market conditions in IPO timing decisions (Boubaker & Mezhoud, 2012). Marketability exhibits a positive correlation, underscoring investors' preference for liquid assets, as liquidity enhances market participation and capital allocation (Bajaj et al., 2001). Sectoral performance displays a positive correlation, indicating that investors favor

sectors with strong performance, aligning with studies highlighting sectoral influence on IPO pricing and investor demand (Mauer & Senbet, 1992). Corporate governance demonstrates a positive correlation, reflecting investors' preference for firms with strong governance practices, corroborating research linking governance to firm value and investor confidence (Chang & Wei, 2011). The bandwagon effect exhibits a positive correlation, suggesting investors' tendency to follow others' actions, echoing literature on herd behavior and information cascades in IPO markets (Bikhchandani & Sharma, 2001). These findings provide insights into the factors shaping investor behavior in hydropower IPOs, contributing to a deeper understanding of IPO market dynamics in Nepal.

Multiple Regression Analysis

Pre-issue financial health (PFH) exhibits a positive and significant impact on investor behavior ($P < 0.05$), aligning with prior research highlighting the importance of firm financial health in influencing investor sentiment and subscription levels (Marshall, 2004). Conversely, idiosyncratic risk (IR) demonstrates a negative and significant influence, corroborating studies emphasizing risk's role in shaping investor decisions and subscription levels (Fazil & Ipek, 2013). Expected return (ER) shows a positive and significant impact on investor behavior ($P<0.05$), consistent with literature emphasizing investors' preference for higher returns and capital gains (Eng & Aw, 2000). However, the timing of IPO (TIPO) and bandwagon effect (BE) exhibit non-significant impacts ($P > 0.05$), suggesting that investors' decisions are unaffected by IPO timing and herding behavior in the hydropower IPO market. Marketability (MKT), sectoral performance (SP), and corporate governance (CG) demonstrate positive and significant impacts on investor behavior ($P < 0.05$), supporting prior research highlighting the importance of liquidity, sectoral performance, and governance practices in shaping investor sentiment and market dynamics (Bajaj et al., 2001; Mauer & Senbet, 1992; Chang & Wei, 2011).

Table 5: Multiple Regression Analysis of Study Variables

	Beta	T-value	Sig	VIF
(Constant)	0.671	1.789	0.074	
Pre-issue Financial Health (PFH)	0.239	4.419	0.000	1.647
Idiosyncratic Risk (IR)	-0.320	-5.457	0.000	2.688
Expected Return (ER)	0.437	8.381	0.000	2.340
Timing of IPO (TIPO)	0.057	1.617	0.107	1.031
Marketability (MKT)	0.264	5.657	0.000	1.313
Sectoral Performance (SP)	0.270	5.282	0.000	1.891

Corporate Governance (CG)	0.190	5.201	0.000	1.214
Bandwagon Effect (BE)	0.012	0.624	0.533	1.057
R-square	0.772		Adj. R Square	0.767
F	161.013		Sig.	0.000

Based on the regression analysis presented in Table 5, the following regression equation has been developed:

ID = 0.671 + 0.239 PFH – 0.320 IR + 0.437 ER + 0.057 TIPO + 0.264 MKT + 0.270 SP + 0.190 CG + 0.012 BE ---------- (i)

The regression equation's R-square value of 77.2% indicates that the independent variables explain 77.2% of the variance in investor behavior, suggesting a robust model fit. The F-value of 161.013 and significance level ($P < 0.05$) further support the acceptability of the regression equation. Additionally, the absence of multicollinearity, as indicated by the variance inflation factor (VIF) values, enhances the reliability of the regression results.

One-Sample T-test and ANOVA Test

The results of the One-Sample T-test and ANOVA Test, showcased in Table 6, offer valuable insights into the heterogeneity among demographic factors and their impact on investment decisions in hydropower IPOs within the Nepalese stock market. This analysis focuses on demographic dimensions including Gender, Age, Education, Occupation, Investment Motives, and Holdings of hydropower shares, aiming to explore their potential impact on individuals' decision-making concerning hydropower investments.

Table 6: Analysis of Mean Differences (Heterogeneity) Across Demographic Factors Influencing Investment Decisions in Hydropower IPOs

Independent Sample T-test

Gender	n	Mean	Std. Dev.	T-value	P-Value
Male	221	1.89	0.72	-3.23	0.001
Female	171	2.14	0.81	-3.18	0.002
Total	392	1.89	0.72	*F = 16.912 (P = 0.000)*	

ANOVA Test

	Sum of Squares	df	Mean Square	F	Sig.
Age					
Between Groups	25.52	3	8.51	15.93	0.000
Within Groups	207.17	388	0.53		
Total	232.69	391			
Education					
Between Groups	27.843	3	9.281	17.579	0.000
Within Groups	204.844	388	0.528		
Total	232.687	391			
Motivation					
Between Groups	122.989	2	61.495	218.065	0.000
Within Groups	109.698	389	0.282		
Total	232.687	391			
Holding hydropower					
Between Groups	12.335	3	4.112	7.240	0.000
Within Groups	220.352	388	0.568		
Total	232.687	391			

The results presented in Table 6 reveal statistically significant differences ($p < 0.05$) among demographic variables including gender, age, education, investment motives, and holding of hydropower shares. These findings suggest that demographic factors play a crucial role in shaping investment decisions regarding hydropower IPOs in the Nepalese stock market. Investors exhibit diverse decision-making patterns based on their gender, age group, educational background, investment motives, and hydropower shareholdings. Notably, these variations imply that investors with different demographic profiles make varying decisions concerning hydropower IPO investments. These results are consistent with prior research indicating the influence of demographic variables on investor behavior in IPOs. Specifically, the observed significance aligns with studies highlighting the importance of demographic factors such as gender (Jawaheer & Manual, 2016), age group (Joshi, 2018), and educational background (Maharjan et al., 2022) though Sachdeva and Lehal (2023) found no gender-based differences in investment choices. This means that investors with diverse demographic characteristics make different investment decisions for hydropower

IPOs. A Post-hoc analysis was conducted to determine which groups differed from one another (see Table 7).

Post-hoc Analysis

Table 7: Post-hoc Analysis: Multiple Comparisons of Investment Decision by Demographic Factors

		Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
					Lower Bound	Upper Bound
(I) Age	(J) Age					
(25-39)	(Below 25)	0.603*	0.091	0.000	0.368	0.839
	(40 to 55)	-0.362*	0.097	0.001	-0.612	-0.112
	(Above 55)	-0.516*	0.132	0.001	-0.856	-0.175
(I) Education Education	(J)					
Bachelor's Level	Secondary Level	0.700*	0.103	0.000	0.436	0.965
	Intermediate Level	0.500*	0.109	0.000	0.218	0.783
	Masters and above	0.431*	0.094	0.000	0.189	0.674
(I) Motives	(J) Motives					
Short-term	Medium-term	0.252*	0.068	0.001	0.0924	0.411
	Long-term	-1.072*	0.062	0.000	-1.2191	-0.925
Medium-term	Long-term	-1.324*	0.071	0.000	-1.4895	-1.158
(I) Holding Sh. Sh.	(J) Holding					
< 3 Shares	4 to 6 shares	0.338*	0.103	0.006	0.072	0.604
	7 to 10 shares	0.467*	0.112	0.000	0.177	0.757
	> 10 shares	0.426*	0.113	0.001	0.135	0.717

*. The mean difference is significant at the 0.05 level.

The analysis of variance (ANOVA) results, as presented in Table 7, highlight the significant differences observed among various demographic groups in their investment decisions concerning hydropower IPOs in the Nepalese stock market. Firstly, it is evident that age group plays a crucial role, with individuals aged between

25 to 39 exhibiting distinct perspectives and investment strategies compared to their younger and older counterparts. This finding emphasizes the significance of age as a demographic variable in influencing investor behavior ($P < 0.05$), aligning with prior research highlighting age-based variations in risk appetite and investment goals (Ghimire & Karki, 2022). Additionally, the level of education emerges as a determining factor, as investors with Bachelor's degrees demonstrate significant differences in decision-making compared to those with different educational backgrounds ($P < 0.05$). This underscores the impact of education on investment choices, with higher levels of education potentially contributing to greater financial literacy and analytical skills (Maharjan et al., 2022). Surprisingly, significant differences ($P < 0.05$) are also observed based on investors' motives, indicating that investment objectives, whether short-term, medium-term, or long-term, play a pivotal role in shaping decision-making processes. This underscores the importance of aligning investment strategies with individual objectives and risk tolerances. Furthermore, the number of hydropower shares held by investors significantly influences decision-making behavior ($P < 0.05$), particularly among those holding fewer shares. This highlights the relationship between portfolio composition and investment decisions, emphasizing the need for tailored strategies based on individual portfolio sizes and objectives. In essence, these ANOVA findings underscore the intricate interplay between demographic variables and investor behavior in the context of hydropower IPO investments, emphasizing the importance of understanding these dynamics for devising targeted investment approaches and enhancing investor engagement in the Nepalese stock market. Table 8 shows the summary of hypothesis testing results.

Table 8: Summary of Hypothesis Testing

Hypotheses	Findings
$\mathbf{H_1}$: Idiosyncratic risks (IR) significantly influence hydropower investment decisions.	Accepted
$\mathbf{H_2}$: Market risks (BE & TIPO) significantly influence the hydropower investment decisions.	Not supported
$\mathbf{H_3}$: Expected returns (ER and SP) significantly influence the hydropower investment decisions.	Accepted
$\mathbf{H_4}$: Corporate governance (CG, PFH, & MKT) significantly influences the hydropower investment decisions.	Accepted
$\mathbf{H_5}$: Demographic factors significantly impact the decision-making in hydropower IPOs.	Accepted

5. CONCLUSION

This study has comprehensively examined the factors influencing investor behavior towards IPOs in the hydropower development sector of Nepal. Through systematic

analysis, it has been revealed that idiosyncratic risks, expected return, and corporate governance emerge as pivotal determinants shaping investor decisions in this domain. The other considerable associated factors in the cross-influence of risk, return, and governance were the bandwagon effect, timing of IPOs, sectoral performance, pre-issue financial health, and marketability that influence investing decisions in hydropower IPOs. Notably, the absence of significant impact from market risks such as the bandwagon effect and IPO timing in regression analysis underscores the perceptive approach of Nepalese investors, who prioritize returns and organizational governance over broader market dynamics. Furthermore, the analysis found significant associations between investor behavior and sociodemographic variables, including age, education, occupation, and investment objectives, highlighting the diverse perspectives influencing investment decisions within the Nepalese context. Moving forward, the implications of these findings are profound. Investors must engage in careful evaluation, aligning their investments with their goals while dealing with the complexities of the hydropower IPO market. Moreover, there is a critical need for hydropower developers to prioritize investor protection and transparency, fostering trust and confidence in the sector. Regulatory bodies should enhance disclosures, enforce shareholder accountability, and strengthen project oversight to ensure the integrity and stability of the market. Looking ahead, future research endeavors could explore a deeper understanding of the evolving dynamics of investor behavior in the hydropower sector, considering emerging trends and external factors that may shape investment decisions. Additionally, exploring the impact of regulatory interventions and policy changes on investor sentiment could offer valuable insights into creating a favorable investment environment.

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