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## Intellectual Capital on Initial Return: Evidence in Indonesian Initial Public Offering Companies

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## ARTICLE INFORMATION

## ABSTRACT

Abstract: This study tries to investigate how intellectual capital influences initial returns. The population for this study consisted of all businesses that had an IPO during the year of 2020. This study employed a purposive sampling strategy with predetermined criteria. 42 businesses were located that fit the sample requirements. In this study, a regression linier test that is handled by SPSS is used. This study discovered that the first return is not influenced by the company's intellectual capital.

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**INTRODUCTION**

In many nations, Covid 19 has been classified as a virus that poses a concern to human health. On December 31, 2019, China made a public announcement on a viral pneumonia case. The World Health Organization (WHO) gave the Chinese government official advice about that instance. On January 9, 2020, the Chinese authorities subsequently declared that a coronavirus was to blame for the cluster pneumonia case. Outside of the place of origin, the Corona case quickly spread, and comparable cases were discovered in numerous other nations. Based on this incident, WHO immediately declared that the coronavirus was a dangerous virus that needed to be watched out for internationally by the end of January 2020. Not surprisingly, the coronavirus first showed up in Indonesia in March 2020.

The global COVID-19 pandemic scenario has significantly influenced every element of human life. The economic sector of a nation is one of the effects of COVID-19. The COVID-19 virus has prompted health organizations in every nation to create guidelines known as "lockdowns" to prevent the infection from spreading further. Indonesia's government enforces laws that restrict social engagement. However, the lack of social interaction constraints led to a slowdown in the economy's growth rate. A policy that restricts social interaction on a broad scale and has an impact on business operations would undoubtedly cause a decline in citizen income, which will have an impact on national income. Stocks for Kuswanto 2021 have dropped significantly, and GDP growth has slowed in several nations When the epidemic was announced, the first and second quarters showed negative growth. The way that investors behave on the stock market is undoubtedly impacted by this circumstance. According to Lalwani and Meshram (2020), the coronavirus caused an unstable scenario that resulted in increasing stock market inefficiencies. Although Covid 19 has influenced everything from domestic income and economic expansion to capital market investor behavior, numerous businesses are still raising money through initial public offerings. 35 new companies in Indonesia launched initial public offerings (IPOs) on the Indonesia Stock Exchange during the early epidemic era (IDX.co.id, 2020). Knowing that there is an initial return for issuers doing an IPO during this time is interesting in light of these facts. the pandemic period.

The initial return of issuers launching an IPO is influenced by many factors. Information asymmetry between insiders (those who know more about the company) and potential investors is one of the elements influencing the initial return. By sending the public a clear signal, information asymmetry can be reduced to a minimum. The prospectus, which offers information on the company's performance, provides a positive signal from the company. Financial performance factors like profitability, leverage and the first return on IPO shares are influenced by some academics. Consistent outcomes, meanwhile, have not been attained. As a result, it's crucial to include additional elements like intellectual capital (IC).

Internal parties have access to more information than external parties have, which causes information gaps. Insider knowledge of a company's resources and performance is greater among issuers than among prospective investors. Investors, who are external to the company, claim that it has resources that give it a competitive advantage and that it can be directed to perform well over the long run. If a firm does not receive sufficient information about the issuer's performance, it may hesitate to purchase company shares. This circumstance will have an impact on investors' limited interest in purchasing issuer shares. One way that businesses might lessen the information gap between insiders and outsiders is by disclosing their financial performance. Companies preparing an IPO can publish both financial and non-financial information as a potential technique for decreasing risk, according to Singh & van der Zahn (2007).

The annual report and financial statements of a corporation alone cannot adequately disclose its financial and non-financial performance. Companies should, however, disclose both tangible and intangible business resources. In theory, the firm seeks to maximize both the company's value and the welfare of its shareholders in addition to increasing revenues (Septentia & Suhartini, 2020). Duff (2018) (2018) an organization's intangible assets are valued by its intellectual capital. A corporation is more valuable when it can make the most of all of its resources, both tangible (financial and non-financial) and intangible (human resources, relationships with suppliers and customers, goodwill). Companies should think about reporting their intangible resource components through the disclosure of their intellectual property (IC). IC is viewed as a crucial element. In the knowledge and

technology-based economic era, IC is viewed as a key aspect in building business value and strengthening a company's competitive advantage (Bontis et al., 2000).

Therefore, researchers are interested in how intellectual capital influences the first return. The 2020 research period was chosen since it was still the epidemic era during that time. Research on the pandemic period is intriguing because of the slowing global economic growth.

## LITERATURE REVIEW
### Resource-Based View Theory

Using both actual and intangible resources, the Resource Based View thesis examines how businesses formulate their strategies to gain a competitive edge. According to (Barney, 1991), the company's resources give it a competitive advantage and can boost its long-term performance. According to the resource-based view idea, businesses have three different types of resources at their disposal: organizational resources, human resources, and physical resources, including raw materials, technology, factories, and equipment (such as structure formal). The concept of resources, strategy, superior performance, corporate value, and retaining competitive advantage are all highlighted by the resource-based view theory. According to this hypothesis, a business is thought to have a competitive edge and be able to compete for a very long time. (1991; Barney) Resources must satisfy four requirements in order to be considered potential resources: they must be valuable, uncommon, unique, and non-substitutable.

### Initial Returns

When the bid price is lower than the price on the capital market's opening day, initial returns take place (Abdul-Rahim & Che-Embi, 2013). Initial return is proof that the capital market has responded favorably and believes the company is performing well. A large number of requests for the company's first public offering served as a sign of the favorable reception. When IPO volume reflects the firm's supply response variable, first-day return, according to Low and Yong (2011), is the variable that is directly tied to investor demand.

### Intellectual Capital (IC)

Intellectual capital is a non-financial asset that takes the shape of knowledge and information resources and serves as a catalyst for an enhancer of business performance (Ishaq et al., 2020). The economic value of a corporation, which is based on intangible assets that can increase the value of the company, is related to intellectual capital. Wang and Xu (2018), To give the company a competitive advantage and long-term sustainability, intellectual capital is regarded as capital and a driver of financial performance. The corporation must make the most of its resources to gain a competitive advantage. Human capital, structural capital, and relational capital are the three components that make up intellectual capital. Through their capabilities, abilities, and skills, employees represent human capital to generate intellectual capital (Meles et al., 2016). In addition to human capital, structural capital is another aspect of intellectual capital. Infrastructure known as structural capital supports knowledge and human resources, including corporate culture, sustainability, and innovative behavior (Bontis et al., 2018). Strong structural capital allows businesses to better match human capital to relation capital (Yaseen et al., 2016). According to Andreeva and Garanina (2016), relation capital refers to the value that is contained in a company's connections with its stakeholders, including its suppliers, customers, and other stakeholders.

### The Effect of Intellectual Capital on Initial Return

Intellectual capital is a non-financial asset that takes the shape of knowledge and information resources and serves as a catalyst for an enhancer of business performance (Ishaq et al., 2020). According to Duff (2018), The term "intellectual capital" refers to an organization's intangible assets. When a corporation can make the most of all of its resources, both tangible (monetary and non-monetary) and intangible, it has a higher value (human resources, relationships with suppliers and customers, goodwill). Superior business intelligence can coordinate all resources to produce added value and a competitive edge. Human resource management, structural capital, which comprises the company's plan to employ all of its resources and infrastructure, and maintaining relationships with potential consumers are all factors that contribute to the company's rise in value and competitive advantage. The Resource-Based View Theory asserts that businesses have three different types of resources at their disposal: organizational resources, human resources, and physical resources, including raw materials, technology, factories, and equipment (such as formal structures). The Resource Based View Theory views human and structural intellectual capital in addition to physical and

financial capital (Al-Musali & Ismail, 2014). Investors want to place their money in businesses that perform well and have a competitive advantage during an initial public offering. Therefore, businesses with strong intellectual capital will be able to produce favorable initial returns. According to Mazzoli & Cardi (2015), the initial return on a company's IPO shares increases in direct proportion to its level of intellectual capital.

H1: Intellectual Capital has a positive effect on the initial return

**METHOD**

This study intends to examine how intellectual capital (IC) influences initial return (IC). All businesses that have IPO offers for the year 2020 make up the population for this study. The prospectuses for first public offerings and annual reports of companies served as the research's data sources. The www.idx.co.id website is where the information is found. Purposive sampling is being used in this study's sample selection. The multiple regression model was used in this study. SPSS was the program used in this study.

Table 1. Sample Selection Criteria

| No | Criteria | Amount |
|---|---|---|
| 1. | Companies conducting IPOs for the 2020-2021 period | 52 |
| 2. | Companies that do not experience initial returns | 4 |
| 3. | Companies that do not have complete data | 1 |
| 4. | Companies that experience losses | 5 |
| | The number of companies used as research samples | 42 |

Source: Processed Data

Based on the hypothesis that has been developed by researchers, The research's regression model equation is as follows:

$$IR = \alpha + \beta_1 IC + \xi$$

Information :

IR  = Initial returns
A   = constant
$\beta_1$  = coefficient of the independent variable at the company i year t
IC  = Intellectual Capital
$\xi$   = Errors.

The dependent variable, initial return, happens when the share price after the first day on the stock market is higher than its offering price. Following is the initial return measurement formula:

$$IR = (Pt_1 - Pt_0)/Pt_0$$

Information

IR  = Initial returns
$Pt_1$  =  The share price as of the stock exchange's closing on the first trading day.
$Pt_0$  = The offering price of the shares at IPO.

Known as knowledge and information resources, intellectual capital is a non-financial asset that acts as a catalyst and enhancer of business performance (Ishaq et al., 2020). In this study, intellectual capital is measured using the VAICTM, which combines human capital efficiency, structural capital efficiency, and capital employed efficiency. The VAIC measurement model is shown below.:

$$VAIC = HCE + SCE + CEE$$

VAIC  = Value-added Intellectual Capital
HCE   = Human Capital Efficiency
SCE   = Structural capital efficiency
CEE   = Capital Employed Efficiency

$$VA = OUT - IN$$

Information:

VA   = Value added
OUT  = Company's overall revenue
IN   = Amount of expenses, excluding employee costs

$$HCE = VA/HC$$

Information:

HC   = Human capital is calculated by adding up salaries and wages.

$$SCE = SC/VA$$

Information:

SC   = The difference between VA and HC is used to calculate structural capital.

$$CEE = VA /CE$$

Information:

CE   = Total Equity

**RESULT AND DISCUSSION**

The expected descriptive statistical test results are as follows:

Table 2 Descriptive Statistical Test Results

| | Means | Std. Deviation | N |
|---|---|---|---|
| Initial Return | 0,5132 | 0,2810010 | 42 |
| Intellectual Capital | 2,5246 | 0,886080 | 42 |

Source: Processed Data

Based on table 2, The initial return variable has an average value of 0.5132, as can be observed,

This means that companies that carry out an IPO in 2020 have an average rate of initial return of 0.5132 (51.32%). The intellectual capital (IC) variable has an average of 2.5246. This means that companies that carry out an IPO have an intellectual capital value of 2.5246.

Data Normality Test

Table 3 Result Normality Test

| | Statistics | Sig. | Statistics | Sig. |
|---|---|---|---|---|
| Normal Score of X using Van Der Waerden's Formula | 0,021 | 0,200ᵃ | 0,996 | 1,000 |
| Normal Score of Y using Van Waerden's | 0,067 | 0,200ᵃ | 0,998 | 0,941 |

Source: Processed Data

Based on the results of data normality tests using Kolmogorov-Smirnov shows a significant value because of Asymp. Sig (2-tailed) > 0.05 which is 0.200. Meanwhile, the results of the Shapiro-Wilk test showed a significance value of 1,000 and 0.941. This means that both significances are more than 0.05. It can be inferred from the outcomes of the two tests that the study data is regularly distributed.

Multicollinearity Test

Table 4 Multicollinearity Test Results

| Model | Collinearity Statistics | |
|---|---|---|
| | Tolerance | VIF |
| Constant | | |
| Intellectual Capital | 1,000 | 1,000 |

Source: Processed Data

Based on the results of the multicollinearity test that the tolerance and VIF values are both 1,000. According to the findings of the multicollinearity test, The VIF value is 1,000<10 and the tolerance value is >1,000. This regression model, it can be said, does not exhibit multicollinearity signs.

Heteroscedasticity Test
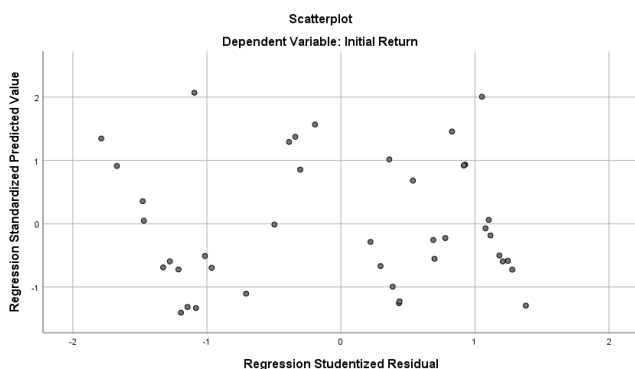
Figure 1. Heteroscedasticity Test Results

Based on the heteroscedasticity test shown by the scatterplot graph, it can be seen that the dots spread across the numbers without forming a clear pattern and spread above and below the number 0 on the Y axis. So it can be concluded that this regression model does not experience heteroscedasticity problems.

Hypothesis test

Table 5 Hypothesis Testing

| Model | Unstandardized Coefficient | | Standardized Coefficients | t | Sig |
|---|---|---|---|---|---|
| (Constant) | 0,347 | 0,131 | | 2,649 | 0,11 |
| Intellectual Capital | 0,066 | 0,049 | 0,208 | 1,344 | 0,186 |

Source: Processed Data 2020

Based on table 5, shows that the intellectual capital variable does not influence Initial Return. This is indicated by a significance value of 1.344 which is greater than 0.05. The results of the hypothesis test can be explained that the company's intellectual capital does not influence the initial return earned by companies that conduct IPOs. In this research, the intellectual capital variable is measured using the efficiency of human resources, and structural and corporate capital. Several sample companies have not invested all of the company's resources to the fullest to improve the company's human resources such as training, workshops, and employee competency test programs. The company has not maximized its resources to achieve a competitive advantage. So this does not influence the potential initial return on the company's IPO shares. The research results do not support the research (Mazzoli & Cardi, 2015) who found intellectual capital has a positive effect on initial return. The results of this research support the research of Novitasari & Cahyati (2018) who found that intellectual capital does not influence the initial return.

## CONCLUSION

This research found that the intellectual capital variable did not influence the initial return. This research does not support the research Mazzoli & Cardi (2015) found that the initial stock return of companies undergoing IPOs increased with increasing intellectual capital. Otherwise, the results of this research support the research (Novitasari &

Cahyati, 2018) who found that intellectual capital does not influence the initial return of companies conducting an IPO.

Suggestions for further research, it is better to use other intellectual capital measurement proxies. Like the intellectual capital disclosure score index formula that is consistent with research Too & Yusoff (2015). Subsequent studies also consider different research periods. In addition, future research should also consider other factors such as the company's growth opportunities, managerial capabilities, and R&D intensity to predict initial returns to obtain optimal results.

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