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Conference Paper

Literature Review: Regarding Stock Returns in Initial Public Offerings

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ABSTRACT

This research aims to conduct a literature review of previous research on factors that influence stock returns at the time of an IPO. This literature review uses nine articles from 2017-2022 in the journal database. This literature review finds factors influencing stock returns during initial public offerings, intellectual capital disclosure, company growth opportunities, research and development (R&D), underwriter reputation, market conditions, percentage of shares offered, and profitability. Future researchers should enrich the journal database further for perfect literature reviews.

Keywords: Intellectual capital, Growth opportunities, Research and Development (R&D), Initial public offerings, literature review

Introduction

The company's primary goal is to survive amidst business competition. To survive in its business, companies need resource support and financial resources. Company funding sources can be met in two ways, namely, including internal and external company funding. The profits generated during a specific period can meet the company's internal financing. External funding can be met by issuing bonds or issuing shares. At certain phases, companies do not have enough funding for their activities by relying solely on internal financing. In this phase, the company wants to expand its business. In this phase, the company requires large funds to support these needs. Mohd-Rashid et al. (2014) state that a company has access to capital markets and the opportunity to increase its value through the issuance and sale of shares to the public for the first time. The initial issuance of shares for issuers is also known as an initial public offering (IPO).

The problem often faced by companies conducting an IPO is convincing investors to be interested in investing their capital in the company. Investors, as parties outside the company, only have a little information about the company. This situation creates an information gap between companies and potential investors. Information gaps can be minimized through disclosures related to a company's performance. Issuers can disclose a company's financial and non-financial performance by issuing a prospectus. A prospectus is a document that contains information related to company performance, which is a positive signal from the company (Widodo, 2022). Prospective investors will respond to information related to financial and non-financial performance as a basis for considering investment decisions. The share price at the time of the IPO is determined by an agreement between the issuer, investors, and underwriters (Hadiwidjaja et al., 2021).

Several factors influence the performance of companies conducting an IPO. Research conducted by Che-Yahya and Abdul-Rahman (2021), Rahman and Che-Yahya (2019) and Tajuddin et al. (2016) examines the role of company growth opportunities in influencing capital market reactions and the impact on share prices at the time of the IPO. The company's growth opportunities reflect that it has

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prospects and competitiveness. From an investor's point of view, they will be interested in participating in investing their funds in a company conducting an IPO if the company has sustainability prospects reflected by higher growth. On the other hand, the issuer's high growth is expected to increase the value of its investment assets (Che-Yahya & Abdul-Rahman, 2021). The company's growth opportunities will be the main criteria that will be considered by capital market participants, both in terms of potential investors and analysts (Rahman & Che-Yahya, 2019). A study (Che-Yahya & Abdul-Rahman, 2021) stated that the higher the company's growth opportunities will reflect the company's high competitive ability and will have implications for increasing the price and returns of the issuer's shares.

Another factor that influences the occurrence of initial returns is intellectual capital. Research conducted by (Widarjo et al., 2017) In fact, research on the importance of disclosing intellectual capital in the IPO context is due to the high information gap between company internal parties and external company parties, which is higher compared to companies that are listed on the Indonesia Stock Exchange (BEI). Companies that will conduct an IPO do not yet have a reputation in the capital market. This condition is because the company is closed and has no duty to provide financial reports, resulting in an information gap between the corporation and other parties. As a result, a method is required to bridge the information gap between internal and external partners within the firm (Singh & Van der Zahn, 2007). Disclosure of information about firm performance is not limited to financial performance. However, corporations must disclose their non-financial performance, which includes intangible assets. According to Duff (2018), the company's intangible assets are valued based on its intellectual capital. In today's technology-driven economy, intellectual capital is critical to increasing corporate value and improving a company's competitive edge (Bontis et al., 2000). disclosure of intellectual capital can help investors analyze and assess a company's quality and prospects and impact the company's share price (Widarjo et al., 2019).

Research and development (R&D) are significant in producing innovation in company productivity to fulfill the organization's goals (Buchdadi et al. 2018). Research and development (R&D) is crucial for businesses. The existence of research and development (R&D) in a firm demonstrates the company's efforts to survive in the face of competition in its industry. According to one study by Ghazi and Zouari (2014), R&D expenditure is critical for increasing firm value. Success in research and development can provide a competitive advantage for a firm by allowing it to establish a differentiation strategy to thrive in global competition (Darmawan et al., 2015). In the context of companies that are launching initial share offerings. The research and development aspect will be crucial since it will influence potential investors' and analysts' assessments, altering share prices and impacting initial returns during IPO. Study According to Hou et al. (2022), R&D intensity is associated with improved future operational performance. As a result, the higher the R&D intensity, the greater the return on the company's stock.

Material and Methods

Table 1. lists the articles

No.	Writer	Article Title	Year	Journal
1	Widarjo, et al.	Underwriter Reputation, Intellectual Capital Disclosure, and Underpricing	2017	International Journal of Business and Society
2	Buchdadi, et al.	The Influence of R&D Expenditure on Firm Performance in Companies Listed on the IDX for the 2003-2015 Period	2018	Indonesian Science Management Research Journal
3	Novitasari & Cahyati	Factors Affecting Underpricing of Shares in Initial Public Offerings on the Indonesian Stock Exchange	2018	PETA Journal

To be continued…

4	Widarjo, et al.	Underpricing and Intellectual Capital Disclosure: Evidence from Indonesia	2019	Global Business Review
5.	Abdul-Rahman & Che-Yahya	Initial and long-term performance of IPOs. Does the growth opportunity of issuing firms matter?	2019	Business and Economic Horizons
6.	Xiang, et al.	Does R&D Expenditure Volatility Affect Stock Return?	2020	Journal of Contemporary Accounting and Economics
7.	Che-Yahya & Abdul-Rahman	The Influence of Growth Opportunities on IPO Initial Aftermarket Performance.	2021	International Journal of Financial Research
8.	Widodo	Intellectual Capital on Initial Return: Evidence in Indonesian Initial Public Offering Companies	2022	Journal of Economics, Business, and Government Challenges
9.	Hou, et al.	Corporate R&D and Stock Return: International Evidence	2022	Journal of Financial and Quantitative Analysis

Results and Discussion

The aspect of article number

The researcher has selected nine articles for the literature review. Based on the year of publication. There is 1 article published in 2017, 2 articles published in 2018, 2 articles published in 2019, 1 article published in 2021, and 2 articles published in 2022, obtained articles from various journal sources. Journal sources for this article include the International Journal of Business and Society, Indonesian Science Management Research Journal, PETA Journal, Global Business Review, Business and Economic Horizons, International Journal of Financial Research, Journal of Economics, Business, and Government Challenges and Journal of Financial and Quantitative Analysis, Journal of Contemporary Accounting and Economics.

Aspects of the article topic

The articles included in this literature review study explore a variety of research subjects. Widarjo et al. (2017) investigated the effect of underwriter reputation and intellectual capital disclosure on IPO underpricing. Novitasari and Cahyati (2018) examined the factors that drive share underpricing during an IPO. These include the underwriter's reputation, market conditions, the percentage of shares offered, profitability, and intellectual capital disclosure. Widarjo et al. (2019) investigated the effect of intellectual capital disclosure on IPO underpricing. Meanwhile, Widodo (2022) examined the impact of intellectual capital disclosure on the early returns of Indonesian publicly traded enterprises.

Rahman and Che-Yahya (2019) investigated the impact of firm expansion opportunities on performance during initial public offerings and long-term following IPO in Bursa Malaysia-listed companies. Che-Yahya and Abdul-Rahman (2021) investigated the effect of corporate expansion potential on stock performance following a listing on Bursa Malaysia. Buchdadi et al. (2018) examined the relationship between R&D expenditure and business performance in IDX-listed companies from 2003 to 2015. Xiang et al. (2020) investigated the influence of R&D volatility on stock returns. This study examines a sample of publicly traded corporations in the United States from 1980 to 2018. Hou et al. (2022) investigate the impact of R&D intensity on stock performance. This study examined populations in 21 countries.

Key aspects of research methods

The Articles used as literature review references employ various research methodologies. Widarjo et al. (2017) examined sample data from 221 companies that went public on the Indonesian Stock Exchange between 2000 and 2014. This study employs OLS regression analysis techniques. Widarjo et al. (2019) applied various regression data analysis methodologies. Researchers also used the z-score as a robustness check to ensure the results were robust and consistent with the Hausman test. Novitasari and Cahyati (2018) employ multiple regression analysis approaches to examine the impact of factors influencing IPO underpricing. Widodo (2022) investigated the effect of intellectual capital on the first profits of IPOs. Multiple regression analysis was utilized to analyze the data in this study. Buchdadi et al. (2018) investigated the impact of R&D expenditure on firm performance in companies listed on the IDX from 2003 to 2015. This study employs panel regression analysis methodologies. Xiang et al. (2020) looked at the impact of R&D volatility on stock returns. This study examines a sample of firms registered in the United States from 1980 to 2018. The data analysis employed in this study is a panel regression analysis method with a robustness test to quantify alternative R&D volatility. Rahman and Che-Yahya (2019) evaluated the possibility of company development in performance during and after initial public offerings in Bursa Malaysia-listed companies. This study employed multiple linear regression with two independent variable models: initial and long-term aftermarket. Che-Yahya and Abdul-Rahman's (2021) research looks into the impact of company expansion potential on stock performance after listing on Bursa Malaysia. This study uses OLS regression data analysis methods. Hou et al. (2022) study the effect of R&D intensity on stock returns. This study looked at populations from 21 countries. This study employs panel data and Fama-MacBeth regression analysis. This study also uses robustness testing to present alternative R&D intensity and return analyses while accounting for hazards in multiple nations.

The aspect of research findings

Several factors affect stock performance around the time of the IPO. The following results were gathered from several papers that served as references for the literature review. Research on the influence of intellectual capital on stock returns has produced varied results. Widarjo et al. (2017) discovered that intellectual capital disclosure had a negative impact on IPO undervaluation. That condition means that the more information the company publishes about its intellectual capital, the less likely its shares will be underpriced during the IPO. Widarjo et al.'s (2019) findings support their own. (2017) indicates that the stronger the company's intellectual capital disclosure, the lower the knowledge asymmetry between issuers and potential investors. As a result, IPO shares will be underpriced less severely. Novitasari and Cahyati (2018) observed that intellectual capital disclosure does not affect the amount of underpricing in IPOs. This criterion implies that the amount of intellectual capital disclosed does not affect IPO underpricing. Meanwhile, Widodo's (2022) research showed that intellectual capital had minimal impact on initial stock returns. This means that high or low intellectual capital does not affect the initial stock returns during IPO.

Rahman and Che-Yahya (2019) discovered that the higher the company's growth potential, the better the stock performance, both at the first listing and throughout time. This is because issuers with considerable growth opportunities signal a company's strong performance potential. Aside from that, the company's colossal development potential provides funding to help it succeed in a competitive business environment. This signal is a positive indication for issuers. As a result, potential investors will be interested in investing in the firm, impacting the company's stock market performance in line with Rahman and Che-Yahya's (2019) findings. Che-Yahya and Abdul-Rahman (2021) discovered that business expansion opportunities improve the long-term performance of shares in the capital market. This company's performance suggests that the more significant its growth prospects, the better its long-term stock performance. However, the distinction between the two studies is research. Che-

Yahya and Abdul-Rahman (2021) exclusively look at the long-term performance of shares in the capital market.

Buchdadi et al. (2018) found that R&D expenditure did not affect firm performance. This condition suggests that a company's R&D expenditure, whether high or poor, does not correlate with its performance. A study (Xiang et al., 2020) discovered that R&D volatility had a detrimental impact on stock returns. This condition implies that the greater the R&D volatility, the worse the company's stock returns. This is because the volatility of research and development will be linked to the company's high costs, causing disruptions to its R&D programs. Hou et al. (2022) discovered that R&D volatility had a beneficial impact on stock returns. This means that if R&D volatility increases, so do stock returns. This is because more R&D volatility fosters innovation, which increases chances for firm value development (Hou et al., 2022).

Conclusion

Several points were gained after discussing various parts of the articles utilized as references for the literature review. The reference article discusses numerous elements influencing stock performance, including intellectual capital, firm growth potential, and research and development (R&D). Methodological elements were achieved using various data and analytical tests. This study page contains statistics and population from the Indonesian Stock Exchange, Bursa Malaysia, the New York Stock Exchange, and stock exchanges in other nations. Data analysis approaches in this literature review include OLS regression, multiple regression, and Fama-MacBeth regression. On the other hand, a data screening approach called the z-score and robustness test is used to ensure robust study outcomes. In terms of findings, we discovered that the research results from each factor were diverse.

The limitations and suggestions for this study are as follows. This study only used nine articles to support its literature review. Thus, the paper fails to explain the literature review study on the elements influencing stock performance during an IPO. Future researchers should employ suitable reference articles in terms of number and content.

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