

Does intellectual capital have any influence on stock price crash risk?

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Received 18 September 2020
Revised 5 January 2021
1 April 2021
Accepted 10 May 2021

Abstract

Purpose – This paper explores the influence between intellectual capital (IC) and the risk of stock price crashes by using company performance as an intervening variable.

Design/methodology/approach – This study empirically analyzes the impact of the efficiency of IC on stock price crash risk using a sample size of 152 companies listed on the Indonesia Stock Exchange (IDX) during 2018. To test the research hypotheses, regression analysis and path analysis were applied. In addition, the researchers added exploration to several studies to strengthen the results of this study.

Findings – This study's findings indicate that investors' optimistic (pessimistic) sentiment regarding stock price volatility has obscured aspects of the financial performance of listed companies. This finding implies that investor sentiment has dominated influence on stock price crash risk so that the aspects of IC are obscured.

Originality/value – This research provides new information that IC disclosure in the stock market needs to include knowledge of the volatility of stock prices in order to reveal stock price crash risk.

Keywords Intellectual capital, Stock price crash risk, Firm performance, Disclosure, Social capital, Corporate governance convergence

Paper type Research paper

1. Introduction

Companies nowadays are being replaced with a knowledge-based, fast-changing and technology-intensive economy, including in Indonesia. Most companies use technology to enhance the efficiency of company activities and depress expenses incurred. In this modern economy, for many firms, the most important and essential asset is intellectual capital (IC), in sharp contrast to times when physical capital was the power of companies. Previous studies have shown that company value and capability are often based on the intangible IC that it possesses (Berzkalne and Zelgalve, 2014; Huang and Huang, 2020). Liu and Jiang (2020) have also proven that IC has a positive impact on business progress, such as increasing brand equity and social networking. In addition, IC provides various positive benefits for companies such as employees' job satisfaction and retention (Longo and Mura, 2011), increasing business innovation (Ornek and Ayas, 2015; Adesina, 2019), increasing the relevance of accounting information (Hayati *et al.*, 2015) and cost efficiency (Martinez *et al.*, 2020). In this study, we propose that the application of IC in the company is expected to reduce the risk on stock price crashes.

The purpose of this study is to find out the relationship between efficiency of IC and stock price crash risk in the future by using firm performance as the mediating variable. Clarke *et al.* (2011) stated that IC has a positive influence on firm performance, which is characterized by three components of IC efficiency (ICE): human capital efficiency (HCE), structural capital efficiency (SCE) and capital employed efficiency (CEE). These factors could be a good indicator for company shareholders because a company with good ICE indicates that they have been using their resources efficiently. Several studies have proven that IC reflects good



competence, skills and knowledge, which can improve financial performance and increase stock returns (Lentjushenkova and Lapina, 2014; Zhou and Pan, 2018). Thus, the company can disclose information in accordance with the needs of the shareholders.

Based on a Taiwanese study by Chen *et al.* (2005), this study uses the quantitative measure, value-added intellectual coefficient (VAIC), developed by Pulic (1998) as a measure of ICE. Data are collected for firms listed on the Indonesia Stock Exchange (IDX) in 2018. We used path analysis to determine whether there is any relation between IC, firm performance and stock price crash risk. Prior VAIC studies have investigated the direct relationship between IC and performance, but there is no research on the relationship between IC and stock price crash risk. This study contributes to the literature by bridging this gap in the knowledge, that is, the relationship between IC and stock price crashes.

This paper proceeds as follows. Section 2 reviews the relevant literature and develops our hypotheses. Section 3 describes the data and research design. Section 4 presents the main empirical results. Section 5 discusses the findings. Section 6 concludes the paper.

2. Literature review and hypothesis

2.1 Strengths and weaknesses of measuring intellectual capital

Basically, IC is measured by various elements such as human capital, physical capital, structural capital, social capital and relational capital. However, previous studies have shown that there are several drawbacks to IC measurement. Adesina (2019) measured IC with three components, namely human capital, physical capital and structural capital; however, only human capital is positively related to all the three efficiencies (technical, allocative and cost). Castillo *et al.* (2019) proved that capabilities of human resources are relevant for these organizations, as well as the internal processes and relationships with customers. On the issue of environmental protection, Yong *et al.* (2019) revealed that green human capital and green relational capital were influenced by green human resource management, but green structural capital was not significantly related to green human resource management. Yusoff *et al.* (2019) also revealed that green human capital does not have a positive relationship with business sustainability.

Although IC possesses weaknesses, its advantages, demonstrated in previous studies, outweigh them. Barrena-Martínez *et al.* (2020) proved that the three components of IC (relational capital, human capital and structural capital) positively affect open innovation performance. Salvi *et al.* (2020) suggested a significantly positive relationship between all three components of IC and firm value, generating multiple implications for reporting entities, investors, regulators and managers. Mahmood and Mubarik (2020) showed that specific policies aimed at developing the IC of a firm, which in turn can enable a firm to maintain a balance between innovation and market exploitation activities. Yusliza *et al.* (2020) indicated the contribution of green IC to be an intangible resource for organizations in achieving sustainable performance, providing a competitive advantage for future researchers. Dubic *et al.* (2021) revealed that the intellectual agility of employees positively influences the innovativeness of micro and small businesses, but this effect is strongly mediated through entrepreneurial leadership, meaning that human capital has an important role in business innovation. This study will explore the efficiency of IC using three measures (human capital, structural capital and capital employed).

2.2 The determinant of information efficiency

Internationally, the efficiency of share price information is influenced by investors' understanding of the long-term relationship between stock market volatility and the uncertainty of international economic policy (Belcaid and Ghini, 2019). A study in France also

shows that stock exchanges find it difficult to maintain the efficiency of stock information during global macroeconomic events (Boya, 2019). Hu *et al.* (2020) revealed that board reforms reduce crash risk by improving financial transparency and enhancing investment efficiency. In Indonesia, sub-optimal financial positions play a role in corporate share repurchase decisions, while the enactment of the regulations has a significant effect on firms undertaking share repurchase programs (Moin *et al.*, 2020). In China, regulations that promote the efficiency of share prices also play an important role in controlling stock prices (He and Fang, 2019). Thus, external factors, namely the ability of investors to analyze stock price volatility, macroeconomic events, financial transparency and government regulations, play a greater role in controlling the risk of stock price crashes, while IC does not play an important role in controlling stock prices.

Luo and Zang (2020) have proven that economic policy uncertainty is significantly and positively associated with aggregated stock price crash risk at the market level. Meanwhile, Wen *et al.* (2019) revealed that higher quality auditing can mitigate the impact of retail investor attention on firms' future crash risk. Lee *et al.* (2020) revealed that a supplier firm with a concentrated customer base experiences a higher crash risk, which is attenuated by lower switching costs and accentuated when the degree of information asymmetry is high. Another study shows that Chinese investor sentiment also affects stock price volatility (Li, 2019). Likewise, Ma *et al.* (2020) suggest that exposure to an undiversified corporate customer base can have a negative bearing on a firm's crash risk. The five studies indicate that economic policy, investor sentiment and audit quality have a significant effect on the risk of stock price crashes.

2.3 Intellectual capital efficiency

IC represents a company's intangible knowledge assets in the form of information and knowledge resources (Kitts *et al.*, 2001). Several studies have revealed that ICE can improve the performance of companies (see, e.g. Clarke *et al.*, 2011; Gogan *et al.*, 2016; Asiaei and Jusoh, 2017; Mustapha and Abdelheq, 2018; McDowell *et al.*, 2018; Sardo *et al.*, 2018; Huang and Huang, 2020). Investors are quite interested in buying shares when the company has implemented ICE. Lin *et al.* (2015) and Ozkan *et al.* (2017) show that the greater the ICE, the more it reduces stock price crashes.

Jerzak (2015) shows that human capital constitutes inborn skills and acquired skills, which, if invested efficiently, can strengthen the company's position, helping it gain competitive advantage. This means that HCE represents a selection of superior IC to be employed in the company's business. Meanwhile, Asiaei *et al.* (2018) have proven that there is a significant positive relationship between HCE levels and the use of a balanced performance measurement system. Dženopoljac *et al.* (2016) also revealed that HCE has a direct positive impact on the financial performance of companies. Therefore, companies that have a higher HCE are more likely to have a higher return on equity (ROE), a higher return on asset (ROA), a higher return on invested capital (ROIC) and tend to be more profitable.

In general, various strategies have been carried out by many companies to regulate structural capital in order to optimize the overall business performance. IC plays a central role in determining the structural capital model used in companies. Gogan *et al.* (2015) posit that determining the right model in structural capital is essential to obtain a competitive advantage in the market. This study indicates that IC plays an important role in determining efficient structural capital so that the organization's desire to be competitive in the market can be achieved. In addition, Ciprian *et al.* (2012) explained that IC is not sufficient to determine the accuracy of structural capital sizes; it is necessary to complement positions on intangible assets that can help to determine company policies and decisions.

Andersson *et al.* (2006) revealed that shareholder demand is a higher return on capital employed, meaning that CEE represents IC, which can perform accurate calculations in capital investment in order to obtain optimal returns. Mørch *et al.* (2017) explained that CEE plays an important role in making investment decisions because accurate calculations are needed regarding the fitness of operations and the financial performance of investments. Thus, ICE plays an important role in investment decisions.

2.4 Intellectual capital efficiency measurement model on stock price risk

Basically, the efficiency of ICE plays a role in the application of HCE, SCE and CEE. This study will examine the effect of ICE on stock price risk. In the testing process, we combine the measurement model of the performance of intellectual potential in the knowledge economy developed by Pulic (1998) and the calculation of the negative coefficient of firm-specific daily returns (NCSKEW) developed by Chen *et al.* (2017). ICE is calculated using three components, namely value-added human capital efficiency (VAHU), value-added structural capital (STVA) and value-added capital employed (VACA). Meanwhile, stock price risk is calculated using NCSKEW. More detailed calculations are explained in the methods section.

Several studies have used this model, which shows mixed results as well. Hejazi *et al.* (2016) found that increasing IC should increase firm value. Meanwhile, Kamukama and Sulait (2017) showed a positive and significant relationship between human capital, relational capital and structural capital on competitive advantage. Another study shows that the three sub-constructions of IC together have a positive and substantive relationship with business performance (Huang and Liu, 2005; Sharabati *et al.*, 2010). The four studies indicate that innovation and creation play a dominant role in describing the latent constructs of IC. Based on the discussion above, hypothesis (H1) is as follows:

- H1a. HCE is positively related to firm performance.
- H1b. SCE is positively related to firm performance.
- H1c. CEE is positively related to firm performance.

Chen *et al.* (2005) have confirmed that investors place higher value on companies with better ICE. Furthermore, Song (2015) has shown that the management tends to hide some negative information and suddenly release negative information in the future if the company has a higher level of accounting disclosure of IC. Dong and Zhang (2016) have also shown that environmental control, information and communication and monitoring components significantly reduce the risk of accidents, while risk assessment and control activity components do not show any relation to the risk of a stock price crash. Ben-Nasr and Ghouma (2018) explained that employee welfare is also a factor that contributes to the risk of stock price crashes. Further analysis shows that a strong corporate governance mechanism can reduce the risk of rising stock price crashes in less unionized companies and that there is a negative impact of union strength on the risk of stock price crashes (Liao and Ouyang, 2017). Meanwhile, Anifowose *et al.* (2017) showed a positive relationship between IC as a whole and the market capitalization value of a company. Some of these studies imply that IC can reduce the risk of stock investment. Based on the above discussion, hypothesis (H2) is as follows:

- H2a. HCE is negatively related to stock price crash risk.
- H2b. SCE is negatively related to stock price crash risk.
- H2c. CEE is negatively related to stock price crash risk.

Bennett *et al.* (2020) explained that the management, directly or indirectly, learns from its firm's stock price so that more informative stock prices should make the firm more

productive. This means that the informativeness of stock prices indicates that the company's performance is better. [Martani et al. \(2009\)](#) mentioned that a company's financial performance is shown by the profitability ratio, and the market value ratio significantly influences returns in the company. Based on this, the following hypothesis (H3) can be formulated as

H3. Firm performance is negatively related to stock price crash risk.

IC owned by the company is expected to create added value so that it can improve company performance. Good firm performance is an indicator that will be considered by investors in making investment decisions. [Cenciarelli et al. \(2018\)](#) show that bankruptcy prediction models that include IC have superior predictive capabilities over standard models. Meanwhile, stock price crashes are very likely to occur if the organization's internal controls are ineffective. The effectiveness of internal control depends on the research and development (R&D) conducted by the company. [Zhou and Pan \(2018\)](#) explained that companies that develop IC require capital for R&D, so they are faced with financing constraints. This means that ICE supports the effectiveness of internal control. In addition, the level of social trust also plays a role in the risk of stock price crashes. According to [Cao et al. \(2016\)](#), social trust, as a socioeconomic factor, is negatively correlated with accident risk. Companies in areas of high social trust tend to hide bad news. The management tends to disclose more related information to acquire investors. Thus, ICE is needed as a corporate strategy to increase information transparency and financial performance, which will result in increasing investor confidence. Based on the discussion above, we can hypothesize (H4) that

H4a. HCE is negatively related to stock price crash risk by using firm performance as an intervening variable.

H4b. SCE is negatively related to stock price crash risk by using firm performance as an intervening variable.

H4c. CEE is negatively related to stock price crash risk by using firm performance as an intervening variable.

3. Research design

3.1 Sample

This study uses companies from various sectors as research objects and sample for the research. The sample was collected from IDX's annual report data for 2018. We also obtained weekly stock data from Yahoo Finance. We then used the following selection criteria: First, similar to [Khan and Watts \(2009\)](#), we required that total assets and book values of equity for each firm be greater than zero. Second, to be included in the sample, a firm must have at least 20 weekly returns for each fiscal year. We also excluded incomplete company data and financial information. Finally, we obtained samples from 152 companies to apply to the study.

3.2 Measurement of independent variables

[Chen et al. \(2005\)](#) argue that VAIC and its three components, HCE, SCE and CEE, represent the independent variables. In order to calculate VAIC, we have to know the amount of HCE, SCE and CEE. This can be expressed in [Formula \(1\)](#).

$$\text{VAIC} = \text{HCE} + \text{SCE} + \text{CEE} \quad \text{Formula 1}$$

To measure VAIC, we need value added (VA) to be calculated. In its simplest form, VA is the difference between output and input. Output represents net sales revenues and input contains all the expenses incurred in earning the sales revenues except labor costs, which are

considered to be a value-creating entity (Tan *et al.*, 2008). This VA is also defined as the net value created by firms during the year (Chen *et al.*, 2005). VA can be calculated using Formula (2).

$$VA = S - B = NI + T + DP + I + W \quad \text{Formula 2}$$

S is sales; B is cost of goods sold; NI is net income after tax; T is taxes; DP is depreciation; I is interest expense and W is employee wages and salaries.

3.2.1 Human capital efficiency. Human capital factors consist of skills, knowledge, productivity, competence and all aspects that pertain to an employee in the work place. HCE can be calculated using a calculation developed by Pulic (1998), where HCE is calculated using the formula VAHU. VAHU calculations can be seen in Formula (3).

$$VAHU = VA/HC \quad \text{Formula 3}$$

3.2.2 Structural capital efficiency. Structural capital is an element in IC and consists of organizational networks, patents, strategy and brand names. Based on Pulic (1998), we calculated SCE as in Formula (4). Meanwhile, SCE is calculated using STVA as in Formula (5).

$$SC = VA - HC \quad \text{Formula 4}$$

$$STVA = SC/VA \quad \text{Formula 5}$$

SCE is the dollar of SC within the firm, for every dollar of VA, and as HCE increases, SCE increases. If the efficiency measures for both HCE and SCE were calculated with VA as the numerator, a logical inconsistency would remain (Pulic, 1998).

3.2.3 Capital employed efficiency. CEE is the efficiency that SCE and HCE fail to capture. Pulic (1998) argues that IC cannot create value on its own, and so it must be combined with capital (physical and financial) employed (CE). CEE shows how much VA is created by a dollar spent on CE. We could calculate CE as the total assets minus intangible assets and CEE is defined as VACA. VACA calculations can be seen in Formula (6).

$$VACA = VA/CE \quad \text{Formula 6}$$

3.3 Measurement of dependent variable

The risk of stock price crash is the risk of a significant stock price decline after the price had soared (Kim and Zhang, 2016). This variable was developed using a model developed by Chen *et al.* (2017), which can be seen in Formula (7).

$$NCSKEW = \frac{- \left[\frac{n(n-1)^3}{2} \sum_{T=1}^n (w_{i,T,t} - \bar{w}_{i,t})^3 \right]}{\left[(n-1)(n-2) \left(\sum_{T=1}^n (w_{i,T,t} - \bar{w}_{i,t})^2 \right)^{3/2} \right]} \quad \text{Formula 7}$$

$w_{i,T,t}$ is the company's weekly specific stock returns for T weeks in year t , $\bar{w}_{i,t}$ is the average weekly return of the company's specific stock for year t and n is the number of weeks for year t . The larger NCSKEW represents a greater negative slope rate of return, which means a greater risk of stock price crashes that can occur.

3.4 Measurement of intervening variable

This study uses firm performance as the intervening variable. We use ROE to analyze firm performance. We calculate this ratio with Formula (8).

$$ROE = \frac{\text{Earning after tax}}{\text{Equity}} \quad \text{Formula 8}$$

3.5 Empirical models

This study uses path analysis that produce two model regressions to test our hypotheses.

$$ROE = \alpha + \beta1 \text{ VAHU} + \beta2 \text{ STVA} + \beta3 \text{ VACA} + \beta4 \text{ SIZE} - \mu \quad \text{Model I}$$

$$\text{NCSKEW} = \alpha - \beta1 \text{ STVA} - \beta2 \text{ VACA} - \beta3 \text{ AHU} + \beta4 \text{ SIZE} - \beta5 \text{ ROE} - \mu \quad \text{Model II}$$

ROE is the ratio for measuring firm performance, NCSKEW is the negative coefficient of firm-specific daily returns as a proxy for stock price crash risk, VAHU is value-added human capital, STVA is value-added structural capital, VACA is value-added capital employed and SIZE is firm size as the control variable in this study.

4. Results

4.1 Normality test

Table 1 shows the significance value of Asymp. The Sig (two-tailed) is 0.200. The value is greater than 0.1. According to the basis of decision making in the Kolmogorov–Smirnov normality test above, it can be concluded that the data are normally distributed so that the assumptions or statements of normality in the regression model have been fulfilled for the data above.

4.2 Multicollinearity test

The basis for decision-making from the multicollinearity test is the value of tolerance (Tol) and variance inflating factor (VIF). Based on the output table, it is known that the tolerance value of each variable is greater than 0.1. While the VIF value for each variable is less than ten. Then, according to the basis for the multicollinearity test decision-making, we can conclude that there are no symptoms of multicollinearity in the regression model. Table 2 shows the results of the multicollinearity test.

One-sample Kolmogorov–Smirnov test

		Unstandardized residual
N		152
Normal Parameters ^{a,b}	Mean	0.000
	Std. deviation	0.924
Most extreme differences	Absolute	0.059
	Positive	0.037
	Negative	-0.059
Test statistic		0.059
Asymp. Sig. (two-tailed)		0.200 ^{c,d}

Note(s): a. Test distribution is normal; b. Calculated from data; c. Lilliefors significance correction and d. This is a lower bound of the true significance

Table 1.
Normal probability test result

4.3 Heteroskedasticity test

Based on Figure 1, we know that data dots spread above and below or around the number 0. We can then see that the dots are not just clustered above or below. The distribution of data points does not form a wavy pattern, widening then narrowing and then widening again. We can also see that the dots do not make a certain pattern. According to the analyses, we can conclude that there is no heteroscedasticity problem; so a good and ideal regression model can be fulfilled.

4.4 Path analysis

In Table 3, Model 1 shows that the STVA and VACA coefficients have a significant positive effect on ROE at a significance level of 1% with a significance value of 0.015 and 0.000, respectively. While, based on Table 2, there is no significant relationship between VAHU and ROE at the 1% significance level; so we can conclude that H1(a) is rejected. Based on a beta test, VACA is the variable that most influences changes in ROE. The value of Sig. F-statistics shows that at a significance level of 1%, VAHU, VACA and STVA simultaneously influence

Table 2. Multicollinearity test results

Model 1	Unstandardized coefficients		Standardized coefficients			Collinearity statistics	
	B	Std. error	Beta	t	Sig.	Tolerance	VIF
(Constant)	-4.074	1.323		-3.079	0.002		
VAHU	-0.062	0.096	-0.103	-0.640	0.523	0.247	4.052
STVA	0.144	0.952	0.025	0.151	0.880	0.236	4.231
VACA	0.958	0.891	0.117	1.076	0.284	0.538	1.860
SIZE	0.123	0.043	0.248	2.857	0.005	0.847	1.181
ROE	-0.271	1.481	-0.021	-0.183	0.855	0.475	2.104

Note(s): Dependent variable (NCSKEW)

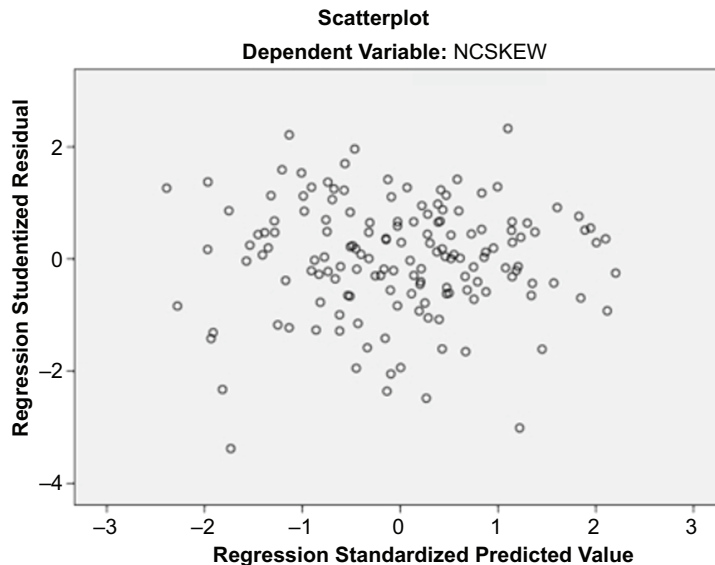


Figure 1. Heteroskedasticity test result

Table 3.
Results of the regression model

	Dependent variable: ROE		Dependent variable: NCSKEW	
	Predicted sign	Model 1	Predicted sign	Model 2
VAHU	+	0.001 (0.005)	-	-0.062 (0.096)
STVA	+	0.128** (0.052)	-	0.144 (0.952)
VACA	+	0.404* (0.037)	-	0.958 (0.891)
SIZE (Control)	+	0.010* (0.002)	-	0.123 (0.043)
ROE (Intervening)			-	-0.271 (1.481)
Constant		-0.340 (0.068)		-4.074 (1.323)
R-square (R^2)		0.525		0.066
Sig. F-stat		0.000*		0.074***
N		152		152

Note(s): This table presents the correlation coefficient number (β), while the number within parentheses is the standard error. *, ** and *** indicate significance at the levels 1%, 5% and 10%, respectively

ROE. This result is a strong indicator that there is a relationship between IC and firm performance, thus supporting H1(b) and H1(c). That is, if a firm can use its IC more efficiently in one year, this can lead to a performance increase in the same year.

In Table 3, Model 2 shows that all of the components of IC do not have any significant relationship with stock price crash risk at the 1% significance level. From Table 2, we also know that ROE does not have any significant influence on stock price crash risk. Furthermore, we use Model 1 and Model 2 for path analysis. After acquiring the numbers from Table 2, we calculated the indirect effect by multiplying the effect of the IC component with ROE and then ROE with stock price crash risk. Based on Table 2 and the path analysis calculation, VAHU has a direct effect on stock price crash risk of 0.103 while the indirect effect of VAHU on stock price crash risk through ROE is 0.000399. STVA has a direct effect on the risk of a stock price crash of 0.025 while STVA has an indirect effect on the risk of a stock price crash of 0.005922. Furthermore, the VACA component has a direct effect of 0.117 and an indirect effect of 0.01264 on the risk of stock price crashes. According to the principle of path analysis, if the indirect effect is greater than the direct effect, then it means there is a significant relationship in the indirect relationship between variables. We can conclude from the data that VAHU, STVA and VACA do not have any significant relationship with stock price crash risk either directly or indirectly through firm performance.

5. Discussion

Several studies show that IC plays an important role in improving sustainable company performance and business progress (see, e.g. Castillo *et al.*, 2019; Lee and Lin, 2019; Opong and Pattanayak, 2019; Secundo *et al.*, 2020). However, the test results in this study prove that IC has no effect on stock crash risk on the IDX. In addition, other results show that the company's performance, as represented by ROE, also has no effect on stock price crash risk. We find that information inefficiency results in general distrust of stock markets in developing countries (Yang *et al.*, 2019). Information inefficiency is a global problem that always exists in the stock market, although more prevalent in developing countries than developed countries (Boya, 2019; Bartram and Grinblatt, 2021). Meanwhile, Al-Yahyaee *et al.* (2020) explain that high liquidity that is not balanced with low volatility will weaken information efficiency in the stock market. This indicates that a company's financial performance appears to be no longer considered in the share purchase decision.

Investors' optimistic (pessimistic) sentiment toward stock prices seems to dominate influence on the operation of the stock market. The sentiment index built on social media has

been shown to greatly influence the volatility of stock prices (Liang *et al.*, 2020). The optimistic (pessimistic) sentiment of Internet search-based investors can also influence premium value in the United States stock market (Teti *et al.*, 2019; Klemola, 2020). Meanwhile, Ni *et al.* (2019) reveal that the fluctuation of stock prices is more sensitive to the intraday sentiment of individuals. Chau *et al.* (2016) explain that sentiment-induced buying and selling is an important determinant of stock price variation. Based on explanations from various studies, we believe that investors' optimistic (pessimistic) sentiment toward stock price volatility dominates influence on buying or selling decisions, so that the financial performance aspects of listed companies are obscured in the stock market.

6. Conclusions and implications

6.1 Conclusions

This study examines the effect of IC components on stock price crash risk by using firm performance as an intervening variable. This research is a quantitative study using secondary data on annual reports published by the IDX and stock price data published by Yahoo Finance. IC variables are measured by the VAIC method written by Pulic (1998), and stock price crash risk variables are measured by NCSKEW developed by Chen *et al.* (2017). Data were processed using the path analysis method to determine the direct effect and indirect effect from each of the interrelated variables.

Simultaneously, the VAHU, STVA and VACA variables have a significant relationship to firm performance; however, partially, VAHU does not have a significant effect like STVA and VACA. Capital employed has the biggest influence on firm performance. The results state that the three IC variables do not have a significant direct or indirect relationship with stock price crash risk. This result is in line with several previous studies. So far, the optimistic (pessimistic) sentiment of investors regarding the volatility of share prices has obscured aspects of the financial performance of listed companies. We conclude that investor sentiment has dominated influence on stock price crash risk so that the IC aspect has become obscured.

6.2 Implications

So far, research on IC has been discussed in 700 articles written by leading authors at various universities (Dubic *et al.*, 2020). However, there is no research that discusses IC disclosure on the stock market. This research provides an understanding that the stock market is driven by the optimistic (pessimistic) sentiment of investors. This fact implies that IC disclosure, which is proxied by the company's financial performance, becomes obscured, while investors prefer to analyze the volatility of stock prices as a parameter in buying or selling decisions. In future research, it is necessary to modify the measurement of the intellectual property associated with knowledge of stock price volatility.

Basically, the ability and knowledge for compiling a stock portfolio that reveals specific information about the company is needed to increase shareholders' confidence (Chance and Yang, 2007). Meanwhile, specific information about the company will produce idiosyncratic volatility, which is the best predictor of stock returns and is proven to have a positive impact on investors' heterogeneous beliefs (Kongsilp and Mateus, 2017; He *et al.*, 2020). Zhan (2019) argues that there was a positive relationship between synchronization of stock price movements and stronger stock market volatility for emerging markets during the financial crisis from June 2007 to December 2008. As regards practical application, IC represents the knowledge and ability for preparing a stock portfolio that contains company-specific information, which is needed to minimize stock price crash risk.

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Does intellectual capital have any influence on stock price crash risk?

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Submission date: 08-Dec-2022 03:22PM (UTC+0700)

Submission ID: 1975163798

File name: 10-1108_JIC-09-2020-0306-1-10.pdf (329.25K)

Word count: 5269

Character count: 27720

Does intellectual capital have any influence on stock price crash risk?

Intellectual
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Received 18 September 2020
Revised 5 January 2021
1 April 2021
Accepted 10 May 2021

Abstract

Purpose – This paper explores the influence between intellectual capital (IC) and the risk of stock price crashes by using company performance as an intervening variable.

Design/methodology/approach – This study empirically analyzes the impact of the efficiency of IC on stock price crash risk using a sample size of 152 companies listed on the Indonesia Stock Exchange (IDX) during 2018. To test the research hypotheses, regression analysis and path analysis were applied. In addition, the researchers added exploration to several studies to strengthen the results of this study.

Findings – This study's findings indicate that investors' optimistic (pessimistic) sentiment regarding stock price volatility has obscured aspects of the financial performance of listed companies. This finding implies that investor sentiment has dominated influence on stock price crash risk so that the aspects of IC are obscured.

Originality/value – This research provides new information that IC disclosure in the stock market needs to include knowledge of the volatility of stock prices in order to reveal stock price crash risk.

Keywords Intellectual capital, Stock price crash risk, Firm performance, Disclosure, Social capital, Corporate governance convergence

Paper type Research paper

1. Introduction

Companies nowadays are being replaced with a knowledge-based, fast-changing and technology-intensive economy, including in Indonesia. Most companies use technology to enhance the efficiency of company activities and depress expenses incurred. In this modern economy, for many firms, the most important and essential asset is intellectual capital (IC), in sharp contrast to times when physical capital was the power of companies. Previous studies have shown that company value and capability are often based on the intangible IC that it possesses (Berzkalne and Zelgalve, 2014; Huang and Huang, 2020). Liu and Jiang (2020) have also proven that IC has a positive impact on business progress, such as increasing brand equity and social networking. In addition, IC provides various positive benefits for companies such as employees' job satisfaction and retention (Longo and Mura, 2011), increasing business innovation (Ornek and Ayas, 2015; Adesina, 2019), increasing the relevance of accounting information (Hayati *et al.*, 2015) and cost efficiency (Martinez *et al.*, 2020). In this study, we propose that the application of IC in the company is expected to reduce the risk on stock price crashes.

The purpose of this study is to find out the relationship between efficiency of IC and stock price crash risk in the future by using firm performance as the mediating variable. Clarke *et al.* (2011) stated that IC has a positive influence on firm performance, which is characterized by three components of IC efficiency (ICE): human capital efficiency (HCE), structural capital efficiency (SCE) and capital employed efficiency (CEE). These factors could be a good indicator for company shareholders because a company with good ICE indicates that they have been using their resources efficiently. Several studies have proven that IC reflects good



competence, skills and knowledge, which can improve financial performance and increase stock returns (Lentjushenkova and Lapina, 2014; Zhou and Pan, 2018). Thus, the company can disclose information in accordance with the needs of the shareholders.

Based on a Taiwanese study by Chen *et al.* (2005), this study uses the quantitative measure, value-added intellectual coefficient (VAIC), developed by Pulic (1998) as a measure of ICE. Data are collected for firms listed on the Indonesia Stock Exchange (IDX) in 2018. We used path analysis to determine whether there is any relation between IC, firm performance and stock price crash risk. Prior VAIC studies have investigated the direct relationship between IC and performance, but there is no research on the relationship between IC and stock price crash risk. This study contributes to the literature by bridging this gap in the knowledge, that is, the relationship between IC and stock price crashes.

This paper proceeds as follows. Section 2 reviews the relevant literature and develops our hypotheses. Section 3 describes the data and research design. Section 4 presents the main empirical results. Section 5 discusses the findings. Section 6 concludes the paper.

2. Literature review and hypothesis

2.1 Strengths and weaknesses of measuring intellectual capital

Basically, IC is measured by various elements such as human capital, physical capital, structural capital, social capital and relational capital. However, previous studies have shown that there are several drawbacks to IC measurement. Adesina (2019) measured IC with three components, namely human capital, physical capital and structural capital; however, only human capital is positively related to all the three efficiencies (technical, allocative and cost). Castillo *et al.* (2019) proved that capabilities of human resources are relevant for these organizations, as well as the internal processes and relationships with customers. On the issue of environmental protection, Yong *et al.* (2019) revealed that green human capital and green relational capital were influenced by green human resource management, but green structural capital was not significantly related to green human resource management. Yusoff *et al.* (2019) also revealed that green human capital does not have a positive relationship with business sustainability.

Although IC possesses weaknesses, its advantages, demonstrated in previous studies, outweigh them. Barrena-Martínez *et al.* (2020) proved that the three components of IC (relational capital, human capital and structural capital) positively affect open innovation performance. Salvi *et al.* (2020) suggested a significantly positive relationship between all three components of IC and firm value, generating multiple implications for reporting entities, investors, regulators and managers. Mahmood and Mubarik (2020) showed that specific policies aimed at developing the IC of a firm, which in turn can enable a firm to maintain a balance between innovation and market exploitation activities. Yusliza *et al.* (2020) indicated the contribution of green IC to be an intangible resource for organizations in achieving sustainable performance, providing a competitive advantage for future researchers. Dubic *et al.* (2021) revealed that the intellectual agility of employees positively influences the innovativeness of micro and small businesses, but this effect is strongly mediated through entrepreneurial leadership, meaning that human capital has an important role in business innovation. This study will explore the efficiency of IC using three measures (human capital, structural capital and capital employed).

2.2 The determinant of information efficiency

Internationally, the efficiency of share price information is influenced by investors' understanding of the long-term relationship between stock market volatility and the uncertainty of international economic policy (Belcaid and Ghini, 2019). A study in France also

shows that stock exchanges find it difficult to maintain the efficiency of stock information during global macroeconomic events (Boya, 2019). Hu *et al.* (2020) revealed that board reforms reduce crash risk by improving financial transparency and enhancing investment efficiency. In Indonesia, sub-optimal financial positions play a role in corporate share repurchase decisions, while the enactment of the regulations has a significant effect on firms undertaking share repurchase programs (Moin *et al.*, 2020). In China, regulations that promote the efficiency of share prices also play an important role in controlling stock prices (He and Fang, 2019). Thus, external factors, namely the ability of investors to analyze stock price volatility, macroeconomic events, financial transparency and government regulations, play a greater role in controlling the risk of stock price crashes, while IC does not play an important role in controlling stock prices.

Luo and Zang (2020) have proven that economic policy uncertainty is significantly and positively associated with aggregated stock price crash risk at the market level. Meanwhile, Wen *et al.* (2019) revealed that higher quality auditing can mitigate the impact of retail investor attention on firms' future crash risk. Lee *et al.* (2020) revealed that a supplier firm with a concentrated customer base experiences a higher crash risk, which is attenuated by lower switching costs and accentuated when the degree of information asymmetry is high. Another study shows that Chinese investor sentiment also affects stock price volatility (Li, 2019). Likewise, Ma *et al.* (2020) suggest that exposure to an undiversified corporate customer base can have a negative bearing on a firm's crash risk. The five studies indicate that economic policy, investor sentiment and audit quality have a significant effect on the risk of stock price crashes.

2.3 Intellectual capital efficiency

IC represents a company's intangible knowledge assets in the form of information and knowledge resources (Kitts *et al.*, 2001). Several studies have revealed that ICE can improve the performance of companies (see, e.g. Clarke *et al.*, 2011; Gogan *et al.*, 2016; Asiaei and Jusoh, 2017; Mustapha and Abdelheq, 2018; McDowell *et al.*, 2018; Sardo *et al.*, 2018; Huang and Huang, 2020). Investors are quite interested in buying shares when the company has implemented ICE. Lin *et al.* (2015) and Ozkan *et al.* (2017) show that the greater the ICE, the more it reduces stock price crashes.

Jerzak (2015) shows that human capital constitutes inborn skills and acquired skills, which, if invested efficiently, can strengthen the company's position, helping it gain competitive advantage. This means that HCE represents a selection of superior IC to be employed in the company's business. Meanwhile, Asiaei *et al.* (2018) have proven that there is a significant positive relationship between HCE levels and the use of a balanced performance measurement system. Dzenopoljac *et al.* (2016) also revealed that HCE has a direct positive impact on the financial performance of companies. Therefore, companies that have a higher HCE are more likely to have a higher return on equity (ROE), a higher return on asset (ROA), a higher return on invested capital (ROIC) and tend to be more profitable.

In general, various strategies have been carried out by many companies to regulate structural capital in order to optimize the overall business performance. IC plays a central role in determining the structural capital model used in companies. Gogan *et al.* (2015) posit that determining the right model in structural capital is essential to obtain a competitive advantage in the market. This study indicates that IC plays an important role in determining efficient structural capital so that the organization's desire to be competitive in the market can be achieved. In addition, Ciprian *et al.* (2012) explained that IC is not sufficient to determine the accuracy of structural capital sizes; it is necessary to complement positions on intangible assets that can help to determine company policies and decisions.

Andersson *et al.* (2006) revealed that shareholder demand is a higher return on capital employed, meaning that CEE represents IC, which can perform accurate calculations in capital investment in order to obtain optimal returns. Mørch *et al.* (2017) explained that CEE plays an important role in making investment decisions because accurate calculations are needed regarding the fitness of operations and the financial performance of investments. Thus, ICE plays an important role in investment decisions.

2.4 Intellectual capital efficiency measurement model on stock price risk

Basically, the efficiency of ICE plays a role in the application of HCE, SCE and CEE. This study will examine the effect of ICE on stock price risk. In the testing process, we combine the measurement model of the performance of intellectual potential in the knowledge economy developed by Pulic (1998) and the calculation of the negative coefficient of firm-specific daily returns (NCSKEW) developed by Chen *et al.* (2017). ICE is calculated using three components, namely value-added human capital efficiency (VAHU), value-added structural capital (STVA) and value-added capital employed (VACA). Meanwhile, stock price risk is calculated using NCSKEW. More detailed calculations are explained in the methods section.

Several studies have used this model, which shows mixed results as well. Hejazi *et al.* (2016) found that increasing IC should increase firm value. Meanwhile, Kamukama and Sulait (2017) showed a positive and significant relationship between human capital, relational capital and structural capital on competitive advantage. Another study shows that the three sub-constructions of IC together have a positive and substantive relationship with business performance (Huang and Liu, 2005; Sharabati *et al.*, 2010). The four studies indicate that innovation and creation play a dominant role in describing the latent constructs of IC. Based on the discussion above, hypothesis (H1) is as follows:

H1a. HCE is positively related to firm performance.

H1b. SCE is positively related to firm performance.

H1c. CEE is positively related to firm performance.

Chen *et al.* (2005) have confirmed that investors place higher value on companies with better ICE. Furthermore, Song (2015) has shown that the management tends to hide some negative information and suddenly release negative information in the future if the company has a higher level of accounting disclosure of IC. Dong and Zhang (2016) have also shown that environmental control, information and communication and monitoring components significantly reduce the risk of accidents, while risk assessment and control activity components do not show any relation to the risk of a stock price crash. Ben-Nasr and Ghouma (2018) explained that employee welfare is also a factor that contributes to the risk of stock price crashes. Further analysis shows that a strong corporate governance mechanism can reduce the risk of rising stock price crashes in less unionized companies and that there is a negative impact of union strength on the risk of stock price crashes (Liao and Ouyang, 2017). Meanwhile, Anifowose *et al.* (2017) showed a positive relationship between IC as a whole and the market capitalization value of a company. Some of these studies imply that IC can reduce the risk of stock investment. Based on the above discussion, hypothesis (H2) is as follows:

H2a. HCE is negatively related to stock price crash risk.

H2b. SCE is negatively related to stock price crash risk.

H2c. CEE is negatively related to stock price crash risk.

Bennett *et al.* (2020) explained that the management, directly or indirectly, learns from its firm's stock price so that more informative stock prices should make the firm more

productive. This means that the informativeness of stock prices indicates that the company's performance is better. [Martani et al. \(2009\)](#) mentioned that a company's financial performance is shown by the profitability ratio, and the market value ratio significantly influences returns in the company. Based on this, the following hypothesis (H3) can be formulated as

H3. Firm performance is negatively related to stock price crash risk.

IC owned by the company is expected to create added value so that it can improve company performance. Good firm performance is an indicator that will be considered by investors in making investment decisions. [Cenciarelli et al. \(2018\)](#) show that bankruptcy prediction models that include IC have superior predictive capabilities over standard models. Meanwhile, stock price crashes are very likely to occur if the organization's internal controls are ineffective. The effectiveness of internal control depends on the research and development (R&D) conducted by the company. [Zhou and Pan \(2018\)](#) explained that companies that develop IC require capital for R&D, so they are faced with financing constraints. This means that ICE supports the effectiveness of internal control. In addition, the level of social trust also plays a role in the risk of stock price crashes. According to [Cao et al. \(2016\)](#), social trust, as a socioeconomic factor, is negatively correlated with accident risk. Companies in areas of high social trust tend to hide bad news. The management tends to disclose more related information to acquire investors. Thus, ICE is needed as a corporate strategy to increase information transparency and financial performance, which will result in increasing investor confidence. Based on the discussion above, we can hypothesize (H4) that

H4a. HCE is negatively related to stock price crash risk by using firm performance as an intervening variable.

H4b. SCE is negatively related to stock price crash risk by using firm performance as an intervening variable.

H4c. CEE is negatively related to stock price crash risk by using firm performance as an intervening variable.

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3. Research design

3.1 Sample

This study uses companies from various sectors as research objects and sample for the research. The sample was collected from IDX's annual report data for 2018. We also obtained weekly stock data from Yahoo Finance. We then used the following selection criteria: First, similar to [Khan and Watts \(2009\)](#), we required that total assets and book values of equity for each firm be greater than zero. Second, to be included in the sample, a firm must have at least 20 weekly returns for each fiscal year. We also excluded incomplete company data and financial information. Finally, we obtained samples from 152 companies to apply to the study.

3.2 Measurement of independent variables

[Chen et al. \(2005\)](#) argue that VAIC and its three components, HCE, SCE and CEE, represent the independent variables. In order to calculate VAIC, we have to know the amount of HCE, SCE and CEE. This can be expressed in [Formula \(1\)](#).

$$\text{VAIC} = \text{HCE} + \text{SCE} + \text{CEE} \quad \text{Formula 1}$$

To measure VAIC, we need value added (VA) to be calculated. In its simplest form, VA is the difference between output and input. Output represents net sales revenues and input contains all the expenses incurred in earning the sales revenues except labor costs, which are

considered to be a value-creating entity (Tan *et al.*, 2008). This VA is also defined as the net value created by firms during the year (Chen *et al.*, 2005). VA can be calculated using Formula (2).

$$VA = S - B = NI + T + DP + I + W \quad \text{Formula 2}$$

S is sales; B is cost of goods sold; NI is net income after tax; T is taxes; DP is depreciation; I is interest expense and W is employee wages and salaries.

3.2.1 Human capital efficiency. Human capital factors consist of skills, knowledge, productivity, competence and all aspects that pertain to an employee in the work place. HCE can be calculated using a calculation developed by Pulic (1998), where HCE is calculated using the formula VAHU. VAHU calculations can be seen in Formula (3).

$$VAHU = VA/HC \quad \text{Formula 3}$$

3.2.2 Structural capital efficiency. Structural capital is an element in IC and consists of organizational networks, patents, strategy and brand names. Based on Pulic (1998), we calculated SCE as in Formula (4). Meanwhile, SCE is calculated using STVA as in Formula (5).

$$SC = VA - HC \quad \text{Formula 4}$$

$$STVA = SC/VA \quad \text{Formula 5}$$

SCE is the dollar of SC within the firm, for every dollar of VA, and as HCE increases, SCE increases. If the efficiency measures for both HCE and SCE were calculated with VA as the numerator, a logical inconsistency would remain (Pulic, 1998).

3.2.3 Capital employed efficiency. CEE is the efficiency that SCE and HCE fail to capture. Pulic (1998) argues that IC cannot create value on its own, and so it must be combined with capital (physical and financial) employed (CE). CEE shows how much VA is created by a dollar spent on CE. We could calculate CE as the total assets minus intangible assets and CEE is defined as VACA. VACA calculations can be seen in Formula (6).

$$VACA = VA/CE \quad \text{Formula 6}$$

3.3 Measurement of dependent variable

The risk of stock price crash is the risk of a significant stock price decline after the price had soared (Kim and Zhang, 2016). This variable was developed using a model developed by Chen *et al.* (2017), which can be seen in Formula (7).

$$NCSKEW = \frac{- \left[\frac{n(n-1)^3}{2} \sum_{T=1}^n (w_{i,T,t} - \bar{w}_{i,t})^3 \right]}{\left[(n-1)(n-2) \left(\sum_{T=1}^n (w_{i,T,t} - \bar{w}_{i,t})^2 \right)^{3/2} \right]} \quad \text{Formula 7}$$

$W_{i,T,t}$ is the company's weekly specific stock returns for T weeks in year t, \bar{w}_i , t is the average weekly return of the company's specific stock for year t and n is the number of weeks for year t. The larger NCSKEW represents a greater negative slope rate of return, which means a greater risk of stock price crashes that can occur.

3.4 Measurement of intervening variable

This study uses firm performance as the intervening variable. We use ROE to analyze firm performance. We calculate this ratio with Formula (8).

$$ROE = \frac{\text{Earning after tax}}{\text{Equity}} \quad \text{Formula 8}$$

3.5 Empirical models

This study uses path analysis that produce two model regressions to test our hypotheses.

$$ROE = \alpha + \beta1 VAHU + \beta2 STVA + \beta3 VACA + \beta4 SIZE - \mu \quad \text{Model I}$$

$$NCSKEW = \alpha - \beta1 STVA - \beta2 VACA - \beta3 AHU + \beta4 SIZE - \beta5 ROE - \mu \quad \text{Model II}$$

ROE is the ratio for measuring firm performance, NCSKEW is the negative coefficient of firm-specific daily returns as a proxy for stock price crash risk, VAHU is value-added human capital, STVA is value-added structural capital, VACA is value-added capital employed and SIZE is firm size as the control variable in this study.

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4. Results

4.1 Normality test

Table 1 shows the significance value of Asymp. The Sig (two-tailed) is 0.200. The value is greater than 0.1. According to the basis of decision making in the Kolmogorov–Smirnov normality test above, it can be concluded that the data are normally distributed so that the assumptions or statements of normality in the regression model have been fulfilled for the data above.

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4.2 Multicollinearity test

The basis for decision-making from the multicollinearity test is the value of tolerance (Tol) and variance inflating factor (VIF). Based on the output table, it is known that the tolerance value of each variable is greater than 0.1. While the VIF value for each variable is less than ten. Then, according to the basis for the multicollinearity test decision-making, we can conclude that there are no symptoms of multicollinearity in the regression model. Table 2 shows the results of the multicollinearity test.

6

One-sample Kolmogorov–Smirnov test

		Unstandardized residual
N		152
Normal Parameters ^{a,b}	Mean	0.000
	Std. deviation	0.924
Most extreme differences	Absolute	0.059
	Positive	0.037
	Negative	-0.059
Test statistic		0.059
Asymp. Sig. (two-tailed)		0.200 ^{c,d}

Note(s): a. Test distribution is normal; b. Calculated from data; c. Lilliefors significance correction and d. This is a lower bound of the true significance

Table 1. Normal probability test result

4.3 Heteroskedasticity test

Based on Figure 1, we know that data dots spread above and below or around the number 0. We can then see that the dots are not just clustered above or below. The distribution of data points does not form a wavy pattern, widening then narrowing and then widening again. We can also see that the dots do not make a certain pattern. According to the analyses, we can conclude that there is no heteroscedasticity problem; so a good and ideal regression model can be fulfilled.

4.4 Path analysis

In Table 3, Model 1 shows that the STVA and VACA coefficients have a significant positive effect on ROE at a significance level of 1% with a significance value of 0.015 and 0.000, respectively. While, based on Table 2, there is no significant relationship between VAHU and ROE at the 1% significance level; so we can conclude that H1(a) is rejected. Based on a beta test, VACA is the variable that most influences changes in ROE. The value of Sig. F-statistics shows that at a significance level of 1%, VAHU, VACA and STVA simultaneously influence

Model 1	Unstandardized coefficients		Standardized coefficients			Collinearity statistics	
	B	Std. error	Beta	t	Sig.	Tolerance	VIF
(Constant)	-4.074	1.323		-3.079	0.002		
VAHU	-0.062	0.096	-0.103	-0.640	0.523	0.247	4.052
STVA	0.144	0.952	0.025	0.151	0.880	0.236	4.231
VACA	0.958	0.891	0.117	1.076	0.284	0.538	1.860
SIZE	0.123	0.043	0.248	2.857	0.005	0.847	1.181
ROE	-0.271	1.481	-0.021	-0.183	0.855	0.475	2.104

Note(s): Dependent variable (NCSKEW)

Table 2. Multicollinearity test results

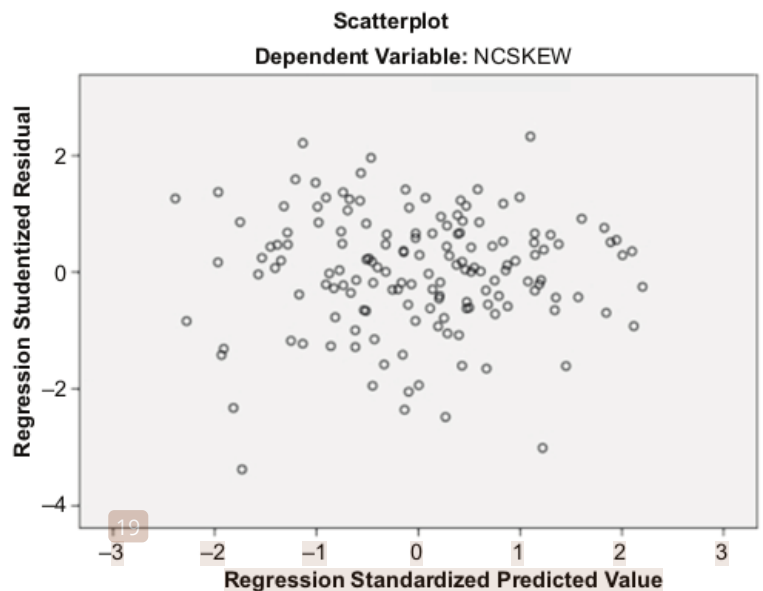


Figure 1. Heteroskedasticity test result

	Dependent variable: ROE		Dependent variable: NCSKEW	
	Predicted sign	Model 1	Predicted sign	Model 2
VAHU	+	0.001 (0.005)	-	-0.062 (0.096)
STVA	+	0.128** (0.052)	-	0.144 (0.952)
VACA	+	0.404* (0.037)	-	0.958 (0.891)
SIZE (Control)	+	0.010* (0.002)	-	0.123 (0.043)
ROE (Intervening)			-	-0.271 (1.481)
Constant		-0.340 (0.068)		-4.074 (1.323)
R-square (R^2)		0.525		0.066
Sig. F-stat		0.000*		0.074***
N		152		152

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Table 3.
Results of the
regression model

Note(s): This table presents the correlation coefficient number (β), while the number within parentheses is the standard error. *, ** and *** indicate significance at the levels 1%, 5% and 10%, respectively

ROE. This result is a strong indicator that there is a relationship between IC and firm performance, thus supporting H1(b) and H1(c). That is, if a firm can use its IC more efficiently in one year, this can lead to a performance increase in the same year.

In Table 3, Model 2 shows that all of the components of IC do not have any significant relationship with stock price crash risk at the 1% significance level. From Table 2, we also know that ROE does not have any significant influence on stock price crash risk. Furthermore, we use Model 1 and Model 2 for path analysis. After acquiring the numbers from Table 2, we calculated the indirect effect by multiplying the effect of the IC component with ROE and then ROE with stock price crash risk. Based on Table 2 and the path analysis calculation, VAHU has a direct effect on stock price crash risk of 0.103 while the indirect effect of VAHU on stock price crash risk through ROE is 0.000399. STVA has a direct effect on the risk of a stock price crash of 0.025 while STVA has an indirect effect on the risk of a stock price crash of 0.005922. Furthermore, the VACA component has a direct effect of 0.117 and an indirect effect of 0.01264 on the risk of stock price crashes. According to the principle of path analysis, if the indirect effect is greater than the direct effect, then it means there is a significant relationship in the indirect relationship between variables. We can conclude from the data that VAHU, STVA and VACA do not have any significant relationship with stock price crash risk either directly or indirectly through firm performance.

5. Discussion

Several studies show that IC plays an important role in improving sustainable company performance and business progress (see, e.g. Castillo *et al.*, 2019; Lee and Lin, 2019; Opong and Pattanayak, 2019; Secundo *et al.*, 2020). However, the test results in this study prove that IC has no effect on stock crash risk on the IDX. In addition, other results show that the company's performance, as represented by ROE, also has no effect on stock price crash risk. We find that information inefficiency results in general distrust of stock markets in developing countries (Yang *et al.*, 2019). Information inefficiency is a global problem that always exists in the stock market, although more prevalent in developing countries than developed countries (Boya, 2019; Bartram and Grinblatt, 2021). Meanwhile, Al-Yahyaee *et al.* (2020) explain that high liquidity that is not balanced with low volatility will weaken information efficiency in the stock market. This indicates that a company's financial performance appears to be no longer considered in the share purchase decision.

Investors' optimistic (pessimistic) sentiment toward stock prices seems to dominate influence on the operation of the stock market. The sentiment index built on social media has

been shown to greatly influence the volatility of stock prices (Liang *et al.*, 2020). The optimistic (pessimistic) sentiment of Internet search-based investors can also influence premium value in the United States stock market (Teti *et al.*, 2019; Klemola, 2020). Meanwhile, Ni *et al.* (2019) reveal that the fluctuation of stock prices is more sensitive to the intraday sentiment of individuals. Chau *et al.* (2016) explain that sentiment-induced buying and selling is an important determinant of stock price variation. Based on explanations from various studies, we believe that investors' optimistic (pessimistic) sentiment toward stock price volatility dominates influence on buying or selling decisions, so that the financial performance aspects of listed companies are obscured in the stock market.

6. Conclusions and implications

6.1 Conclusions

This study examines the effect of IC components on stock price crash risk by using firm performance as an intervening variable. This research is a quantitative study using secondary data on annual reports published by the IDX and stock price data published by Yahoo Finance. IC variables are measured by the VAIC method written by Pulic (1998), and stock price crash risk variables are measured by NCSKEW developed by Chen *et al.* (2017). Data were processed using the path analysis method to determine the direct effect and indirect effect from each of the interrelated variables.

Simultaneously, the VAHU, STVA and VACA variables have a significant relationship to firm performance; however, partially, VAHU does not have a significant effect like STVA and VACA. Capital employed has the biggest influence on firm performance. The results state that the three IC variables do not have a significant direct or indirect relationship with stock price crash risk. This result is in line with several previous studies. So far, the optimistic (pessimistic) sentiment of investors regarding the volatility of share prices has obscured aspects of the financial performance of listed companies. We conclude that investor sentiment has dominated influence on stock price crash risk so that the IC aspect has become obscured.

6.2 Implications

So far, research on IC has been discussed in 700 articles written by leading authors at various universities (Dubic *et al.*, 2020). However, there is no research that discusses IC disclosure on the stock market. This research provides an understanding that the stock market is driven by the optimistic (pessimistic) sentiment of investors. This fact implies that IC disclosure, which is proxied by the company's financial performance, becomes obscured, while investors prefer to analyze the volatility of stock prices as a parameter in buying or selling decisions. In future research, it is necessary to modify the measurement of the intellectual property associated with knowledge of stock price volatility.

Basically, the ability and knowledge for compiling a stock portfolio that reveals specific information about the company is needed to increase shareholders' confidence (Chance and Yang, 2007). Meanwhile, specific information about the company will produce idiosyncratic volatility, which is the best predictor of stock returns and is proven to have a positive impact on investors' heterogeneous beliefs (Kongsilp and Mateus, 2017; He *et al.*, 2020). Zhan (2019) argues that there was a positive relationship between synchronization of stock price movements and stronger stock market volatility for emerging markets during the financial crisis from June 2007 to December 2008. As regards practical application, IC represents the knowledge and ability for preparing a stock portfolio that contains company-specific information, which is needed to minimize stock price crash risk.

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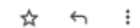
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- F Wen, L Xu, G Ouyang, G Kou, Retail investor attention and stock price crash risk: Evidence from China, *International Review of Financial Analysis*, 2019
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This paper explore the influence between **intellectual capital** and the risk of stock price crashes by using company performance as an intervening variable. This study empirically analyzes the impact of the efficiency of **intellectual capital** on stock price crash risk using a sample size of 152 companies listed on the Indonesia Stock Exchange during 2018. To test the research hypotheses, regression analysis and path analysis were applied. In addition, the researchers added exploration to several studies to strengthen the results of this study. Our findings indicate that investors' optimistic (pessimistic) sentiment regarding stock price volatility has obscured aspects of the financial performance of listed companies. This finding implies that investor sentiment has dominated influence on stock price crash risk so that the aspects of **intellectual capital** are obscured. This research provides new information that **intellectual capital** disclosure in the stock market needs to include **knowledge** of the volatility of stock prices in order to reveal stock price crash risk.

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Journal of Intellectual Capital, Editorial Office

Veronica.scuotto@gmail.com

Does Intellectual Capital Have Any Influence On Stock Price Crash Risk?

ABSTRACT

Purpose

This paper aims to explore the influence between intellectual capital and the risk of stock price crashes by using company performance as an intervening variable.

Design / methodology / approach

This study empirically analyzes the impact of efficiency of intellectual capital on stock price crash risk using 152 sample of companies listed on Indonesia Stock Exchange (IDX) in the period of 2018. To test the research hypotheses, regression analysis and path analysis are applied. In addition, the researchers added exploration to several studies to strengthen the results of this study.

Findings

~~The results show that intellectual capital positively effects on firm performance but does not give any effect on stock price crash risk. The findings show that enhancing intellectual capital is an important thing to do to improve firm performance but having good performance does not mean can reduce stock price crash risk in the future. More detailed explanation can be seen in the discussion section.~~ Our findings indicate that intellectual capital (IC) disclosure needs to involve convergence of corporate governance (CG) to reveal management quality of listed companies. CG convergence will encourage the efficiency of information on the stock market and minimize the risk of stock price crashes. It means, CG convergence is a new indicator that we propose to measure IC of listed companies. More detailed explanation is presented in the discussion section.

Originality / value

~~This paper deepens the understanding that the output of intellectual capital in the stock market are company performance quality and information efficiency in order to minimize negative sentiment from investors. Therefore, this paper proposes a new discourse on IC disclosure by involving corporate governance convergence.~~ This empirical paper deepens the understanding that the output of intellectual capital in business is an increase in company performance, but efficient disclosure of information about performance improvements is also needed in order to minimize negative sentiment from investors. Thus, the ultimate goal of intellectual capital is the efficiency of the company's performance information on the stock market.

Key word: Intellectual capital, stock price crash risk, firm performance, disclosure, corporate governance convergence.

1. Introduction

Companies in modern era nowadays are being replaced with a knowledge-based, fast-changing and technologically intensive economy, including in Indonesia. Most of companies use technology to enhance the efficiency on companies activity and depress expense incurred. In this modern economy, for many firms, the most important asset must be had for each company is intellectual capital. It has been different from previous era that physical capital was the power of the companies. Previous studies have shown that company value and capability are often based on the intangible intellectual capital (IC) that it possesses (Berzkalne and Zelgalve, 2014; Huang and Huang, 2020). Liu and Jiang (2020) have also proven that IC has a positive impact on business progress such as increasing brand equity and social networking. In addition, IC also provides various positive benefits for companies such as employees' job satisfaction and retention (Longo and Mura, 2011), increasing business innovation (Ornek and Ayas, 2015; Adesina, 2019), increasing the relevance of accounting information (Hayati et al., 2015), and cost efficiency (Martinez et al., 2020). In this study, we would intuitively expect that the application of intellectual capital in the company is able to reduce risk on stock price crashes.

The purpose of this study is to find out relationship between efficiency of intellectual capital and stock price crash risk in the future by using firm performance as mediating variable. Clarke et al. (2011) stated that Intellectual capital (IC) has a positive influence on firm performance which is characterized by three components of IC efficiency, such as: HCE (Human Capital Efficiency), SCE (Structural capital Efficiency), and CEE (Capital Employed Efficiency). It could be a good signal for companies's shareholder, because a company with good efficiency on IC means that they have been using the resource for its best. Several studies have proven that IC reflects good competence, skills and knowledge that can improve financial performance and increase stock returns (Lentjushenkova and Lapina, 2014; Zhou and Pan, 2018). Thus, IC represents good competency, skills and knowledge so that the company is able to disclose information in accordance with the needs of shareholders.

Based on a Taiwanese study by Chen et al. (2005) this study uses the quantitative measure, value added intellectual coefficient (VAIC) developed by Pulic (1998) as a measure of IC efficiency. Data is collected for Indonesia Stock Exchange (IDX) listed firms in 2018. We analyze using path analysis for knowing whether there are any relation between intellectual capital, firm performance, and stock price crash risk. Prior VAIC studies have investigated the direct relationship between IC and performance, but there is no investigate about relationship between

IC and Stock Price Crash Risk. Finally, this study contributes to the literature on the relation between Intellectual Capital and stock price crashes.

This paper proceeds as follows. Section 2 reviews the relevant literature and develops our hypotheses. Section 3 describes the data and research design. Section 4 presents the main empirical results. Section 5 discussions. Section 6 concludes the paper.

2. Literature Review and Hypothesis

a. Intellectual Capital Efficiency (ICE)

Intellectual Capital (IC) represents a company's intangible knowledge assets in the form of information and knowledge resources (Kitts et al., 2001). Several studies have revealed that Intellectual Capital efficiency (ICE) can improve the performance of companies (see e.g. Clarke et al., 2011; Gogan et al., 2016; Asiaei and Jusoh, 2017; Mustapha and Abdelheq, 2018; McDowell, 2018; Sardo et al., 2018; Huang and Huang, 2020). Investors are very interested in buying shares when the company has implemented ICE. As Lin et al. (2015); Ozkan et al. (2017) shows that the greater of ICE, the more it reduces stock price crashes.

Jerzak (2015) shows that human capital constitutes inborn skills and acquired skills, which if invested efficiently in can be strengthen the company's position and gains a competitive advantage. It means, the efficiency of human capital (HCE) represents the selection of superior intellectual capital (IC) to be employed in the company's business. Meanwhile, Asiaei et al. (2018) has proven that there was a significant positive relationship between HCE levels and the use of a balanced performance measurement system. Dženopoljac et al. (2016) also revealed that HCE has a direct positive impact on the financial performance of companies. Therefore, Companies that have a higher HCE are more likely to have a higher ROE, a higher ROA, a higher ROIC and tend to be more profitable.

In general, various strategies have been carried out by many companies to regulate structural capital in order to optimize overall business performance. Intellectual capital (IC) has a central role in determining the structural capital model used in companies. Gogan et al. (2015) revealed that determining the right model in structural capital needs to be done in order to obtain competitive advantages in the market. This study indicates that IC plays an important role in determining efficient structural capital so that the organization's desire to be competitive in the market can be achieved. In addition, Ciprian et al. (2012) explained that IC is not sufficient to determine the accuracy of structural capital sizes, it is necessary to

complement positions on intangible assets that can help to determine company policies and decisions.

Andersson et al. (2006) revealed that shareholder demand is a higher return on capital Employed (ROCE). It means, capital employed efficiency (CEE) represents intellectual capital (IC) which is able to perform accurate calculations in capital investment in order to obtain optimal returns. As Mørch et al. (2017) have explained that CEE plays an important role in making investment decisions because accurate calculations are needed regarding the fitness of operations and financial performance of investments. Thus, Intellectual Capital efficiency (ICE) has an important role in investment decisions.

b. Intellectual Capital Efficiency (ICE) Measurement Model on Stock Price Risk

Basically, the efficiency of intellectual capital (ICE) plays a role in the application of HCE (Human Capital Efficiency), SCE (Structural capital Efficiency), and CEE (Capital Employed Efficiency). This study will examine the effect of ICE on stock price risk. In the testing process, we combine the measurement model of the performance of intellectual potential in knowledge economy developed by (Pulic, 1998) and the calculation of the negative coefficient of firm-specific daily returns (NCSKEW) developed by (Chen et al., 2017). ICE is calculated using three components, namely value added human capital efficiency (VAHU), value added structural capital (STVA), and value added capital employed (VACA). Meanwhile, stock price risk is calculated using NCSKEW. More detailed calculations are explained in the method section.

Several studies have used this model which shows mixed results as well. Hejazi et al. (2016) found that increasing intellectual capital (IC) should increase firm value. Meanwhile, Kamukama and Sulait (2017) showed a positive and significant relationship between human capital, relational capital, structural capital on competitive advantage. Another study shows that the three sub-constructions of IC together have a positive and substantive relationship with business performance (Huang and Liu, 2005; Sharabati et al., 2010). The three studies indicate that Innovation and creation play a dominant role in describing the latent constructs of IC. Based on discussion above, hypothesis (H1) is given

H1a : Human capital efficiency is positively related to firm performance

H1b : Structural capital efficiency is positively related to firm performance

H1c : Capital employed efficiency is positively related to firm performance

Chen et al. (2005) have confirmed that investors place higher value on companies with better intellectual capital efficiency. Furthermore, Song (2015) has shown that management tends to hide some negative information and suddenly release negative information in the future if the company has a higher level of accounting disclosure of intellectual capital. Dong and Zhang (2016) have also shown that environmental control, information and communication, and monitoring components significantly reduce the risk of accidents while risk assessment and control activity components do not show any relation to the risk of a stock price crash. Ben-Nasr and Ghouma (2018) explained that employee welfare also factors that contribute to the risk of stock price crashes. Further analysis shows a strong corporate governance mechanism can reduce the risk of rising stock price crashes in less unionized companies and there is a negative impact of union strength on the risk of stock price crashes (Liao and Ouyang, 2017). Meanwhile, Anifowose et al. (2017) showed a positive relationship between the intellectual capital as a whole and the market capitalization value of the company. Some of these studies imply that IC can reduce the risk of stock investment. Based on discussion above, hypothesis (H2) is given.

H2a : Human capital efficiency is negatively related to stock price crash risk

H2b : Structural capital efficiency is negatively related to stock price crash risk

H2c : Capital employed efficiency is negatively related to stock price crash risk

Bennett et al. (2020) has explained that management, directly or indirectly, learns from its firm's stock price, so that more informative stock prices should make the firm more productive. It means, informativeness of stock prices indicates that the company's performance is better. As Martani et al. (2009) mentioned in their research that the company's financial performance is shown by the profitability ratio and the market value ratio significantly influences returns in the company. Based on this research, the following hypothesis (H3) can be formulated as

H3 : firm performance is negatively related to stock price crash risk

Intellectual capital (IC) owned by the company is expected to create added value so that it can improve company performance. Good firm performance is one of the signals that will be considered by investors in making investment decisions. Cenciarelli et al. (2018) in her

research showed that bankruptcy prediction models that include IC have superior predictive capabilities over standard models. Meanwhile, stock price crashes are very likely to occur if the organization's internal controls are ineffective. The effectiveness of internal control depends on research and development (R&D) conducted by the company. Zhou and Pan (2018) explained that companies that will develop Intellectual capital require capital for R&D so they are faced with financing constraints. It means, IC efficiency supports the effectiveness of internal control. In addition, the level of social trust also plays a role in the risk of stock price crashes. According to Cao et al. (2016), social trust, as a socioeconomic factor, is negatively correlated with accident risk. There is a fact that companies in areas of high social trust tend to hide bad news. Management tends to disclose more related information to get investor. Thus, intellectual capital efficiency is needed as a corporate strategy to increase information transparency and financial performance which will manifest towards increasing investor confidence. Based on discussion above, we can hypothesize (H4) that

H4a: Human capital efficiency is negatively related to stock price crash risk by using firm performance as intervening variable

H4b: Structural capital efficiency is negatively related to stock price crash risk by using firm performance as intervening variable

H4c: Capital employed efficiency is negatively related to stock price crash risk by using firm performance as intervening variable

3. Research Design

a. Sample

This study uses companies from various sectors as research objects as the sample for the research. The sample collected from Indonesia Stock Exchange (IDX) annual report data in 2018. We also obtain weekly stock data from Yahoo Finance. We then use the following selection criteria: First, similar to Khan and Watts (2009), we require that total assets and book, values of equity for each firm be greater than zero. Second, to be included in the sample, a firm must have at least 20 weekly returns for each fiscal year. We also excluded incomplete company data and financial information. Finally, we obtained samples from 152 companies to apply to the study.

b. Measurement of Independent variables

Chen et al. (2005) argue that value added intellectual coefficient (VAIC) and its three components, HCE (Human Capital Efficiency), SCE (Structural capital Efficiency), and CEE (Capital Employed Efficiency) represent the independent variables. In order to calculate VAIC, we have to know the amount of HCE, SCE, and CEE. It can be expressed in Formula 1.

$$VAIC = HCE + SCE + CEE \dots\dots\dots Formula 1$$

To measure VAIC we need value added to be calculated. In its simplest form VA is the difference between output and input. Output represents net sales revenues and input contains all the expenses incurred in earning the sales revenues except labor costs which are considered to be a value creating entity (Tan et al., 2008). This VA is also defined as the net value created by firms during the year (Chen et al., 2005), VA could be calculated using Formula 2.

$$VA = S - B = NI + T + DP + I + W \dots\dots\dots Formula 2$$

Notes : S is sales; B is Cost of Goods Sold; NI is net income after tax; T is taxes; DP is depreciation; I is interest expense; and W is wages and salaries for employee.

i. Human Capital Efficiency (HCE)

Human capital (HC) factors consist of skills, knowledge, productivity, competence, and all the things that fit with employee in the work place. Human capital efficiency (HCE) can be calculated using a calculation developed by Pulic (1998), where HCE is calculated using the formula value added human capital efficiency (VAHU). VAHU calculations can be seen in Formula 3.

$$VAHU = VA/HC \dots\dots\dots Formula 3$$

ii. Structural Capital Efficiency (SCE)

Structural Capital (SC) is one of elements in intellectual capital, it consists of organizational networks, patents, strategy, and brand names. Based on Pulic (1998), we calculated SC as in Formula 4. Meanwhile, structural capital efficiency (SCE) is calculated using value added structural capital (STVA) as in Formula 5.

$$SC = VA - HC \dots\dots\dots Formula 4$$

$$STVA = SC / VA \dots\dots\dots Formula 5$$

Structural capital efficiency (SCE) is the dollar of SC within the firm, for every dollar of value added, and as HCE increases, SCE increases. If the efficiency

measures for both HCE and SCE were calculated with VA as the numerator, the logical inconsistency would remain (Pulic, 1998).

iii. *Capital Employed Efficiency (CEE)*

Capital Employed Efficiency (CEE) is the efficiency that SCE and HCE fail to capture. Pulic (1998) argues that IC cannot create value on its own, and so it must be combined with capital (physical and financial) employed (CE). CEE shows how much VA is created by a dollar spent on capital employed (CE). We could calculate CE as the total assets minus intangible assets and CEE is defined as value added capital employed (VACA). VACA calculations can be seen in Formula 6.

$$VACA = VA / CE \dots\dots\dots \text{Formula 6}$$

c. Measurement of Dependent variable

The risk of stock price crash is the risk of a stock price decline in a significant range after the price had soared (Kim and Zhang, 2016). This variable was developed using a model developed by Chen et al. (2017) which can be seen in Formula 7.

$$NCSKEW = \frac{- [n(n-1)3/2 \sum_{T=1}^n (w_{i,T,t} - \bar{w}_{i,t})^3]}{[(n-1)(n-2)(\sum_{T=1}^n (w_{i,T,t} - \bar{w}_{i,t})^2)^{3/2}]}$$
 Formula 7

Notes: $W_{i,T,t}$ is the company's weekly specific stock returns for T weeks in year t, \bar{w}_i , t is the average weekly return of the company's specific stock for year t and n is the number of weeks for year t. The larger NCSKEW represents a greater negative slope rate of return, which means a greater risk of stock price crashes that can occur.

d. Measurement of Intervening variable

This paper uses firm performance as intervening variable. We use ROE to analyze the firm performance. We calculate this ratio with formula 8.

$$ROE = \frac{\text{Earning after tax}}{\text{Equity}} \dots\dots\dots \text{Formula 8}$$

e. Empirical Models

This study uses path analysis that produce two model regression to test our hypotheses.

Model I

$$ROE = \alpha + \beta_1 VAHU + \beta_2 STVA + \beta_3 VACA + \beta_4 SIZE - \mu$$

Model II

$$NCSKEW = \alpha - \beta_1 STVA - \beta_2 VACA - \beta_3 AHU + \beta_4 SIZE - \beta_5 ROE - \mu$$

Notes: ROE is ratio for measuring firm performance, NCSKEW is the negative coefficient of firm-specific daily returns as a proxy of stock price crash risk, VAHU is value added human capital, STVA is structural capital value added, VACA is value added capital employed, and SIZE is firm size as control variable in this study.

4. Results

a. Normality Test

Table 1 show that the significance value of Asymp. The Sig (2-tailed) is 0.200. The value is greater than 0.1. Then according to the basis of decision making in the Kolmogorov-Smirnov normality test above, the result can be concluded that the data is normally distributed so that the assumptions or statements of normality in the regression model have been fulfilled for data above.

Table 1. Normal Probability Test Result

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		152
Normal Parameters ^{a,b}	Mean	0.000
	Std. Deviation	0.924
	Absolute	0.059
Most Extreme Differences	Positive	0.037
	Negative	-0.059
Test Statistic		0.059
Asymp. Sig. (2-tailed)		0.200 ^{c,d}

Notes:

- a. Test distribution is Normal.
- b. Calculated from data.
- c. Lilliefors Significance Correction.
- d. This is a lower bound of the true significance.

b. Multicollinearity Test

The basis for decision making from the multicollinearity test is done by looking at the value of Tolerance and VIF. Based on the output table, it is known that the tolerance value of

each variable is greater than 0.1. While for the VIF value for each variable is less than 10. Then according to the basis for multicollinearity test decision making, we can conclude that there are no symptoms of multicollinearity in the regression model. Table 2 shows the results of the multicollinearity test.

Table 2. Multicollinearity Test Results

Model 1	Unstandardized		Standardized		t	Sig.	Collinearity	
	Coefficients		Coefficients				Statistics	
	B	Std. Error	Beta				Tolerance	VIF
(Constant)	-4.074	1.323			-3.079	0.002		
VAHU	-0.062	0.096	-0.103		-0.640	0.523	0.247	4.052
STVA	0.144	0.952	0.025		0.151	0.880	0.236	4.231
VACA	0.958	0.891	0.117		1.076	0.284	0.538	1.860
SIZE	0.123	0.043	0.248		2.857	0.005	0.847	1.181
ROE	-0.271	1.481	-0.021		-0.183	0.855	0.475	2.104

Note: Dependent Variable (NCSKEW)

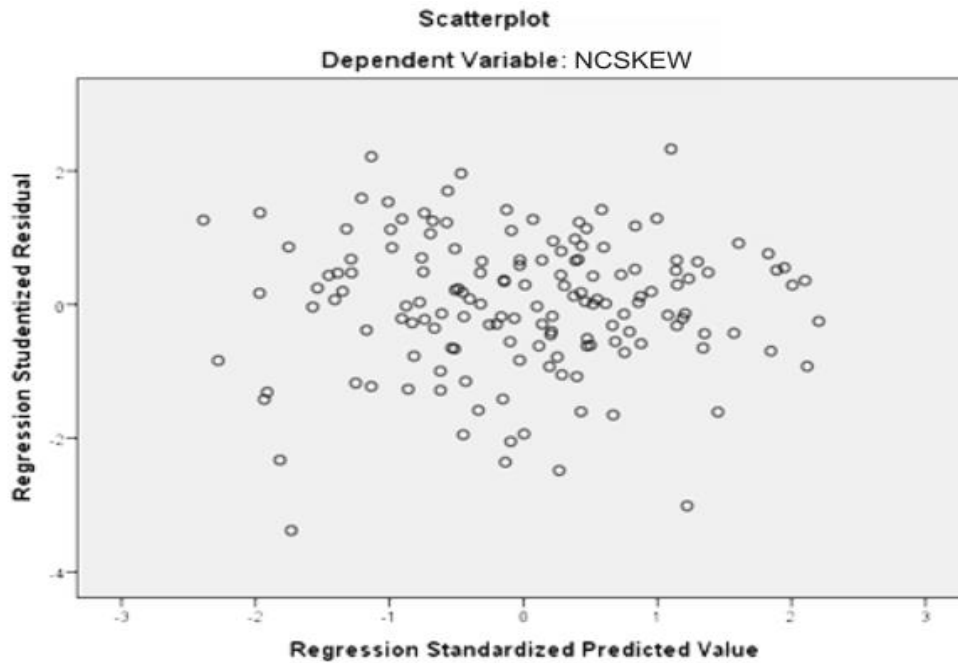
c. Heteroskedasticity Test

Based on Figure 1, we know that data dots spread above and below or around the number of 0. Then we can see that dots are not clustered just on above or below. The distribution of data points does not form a wavy pattern widened then narrowed and widened again. We also can see that the dots do not make any certain pattern. According from the analyses, we can conclude that there is no heteroscedasticity problem so that a good and ideal regression model can be fulfilled.

d. Path Analysis

In the Table 3, Model 1 shows that the STVA and VACA coefficients have a significant positive effect on ROE at a significance level of 1% with a significance value of 0.015 and 0,000, respectively. While based on the table given that there is no significant relationship between VAHU and ROE at the 1% significance level, so we can conclude that H1(a) is rejected. Based on a beta test, VACA is variable that have the most influences changes in ROE. The value of Sig. F-statistics show that at a significance level of 1%, VAHU, VACA, and STVA simultaneously influence on ROE. This result is a strong indicator that there is a relationship between intellectual capital and firm performance, thus supporting H1(b) and H1(c). That is, if a firm is able to use its IC more efficiently in one year, this can lead to a performance increase in the same year.

Figure 1. Heteroskedasticity Test Result



In the Table 3, Model 2 shows that all of the components of intellectual capital do not have any significance relationship with stock price crash risk at 1% significance level. From table above we also know that ROE does not have any significance influence on stock price crash risk. Furthermore, we use model 1 and model 2 to do analysis path. After getting the numbers from the table, we calculate the indirect effect by multiplying the effect of the IC component with ROE and ROE with stock price crash risk. Based on the table and path analysis calculation, VAHU has a direct effect on stock price crash risk of 0.103 while the indirect effect of VAHU on stock price crash risk through ROE is 0,000399. STVA has a direct effect on the risk of a stock price crash of 0.025 while STVA has an indirect effect on the risk of a stock price crash of 0.005922. Furthermore, the VACA component has a direct effect of 0.117 and an indirect effect of 0.01264 on the risk of stock price crashes. According to the principle of path analysis that if the indirect effect is greater than the direct effect then it means there is a significant relationship in the indirect relationship between variables. We can conclude from the data that VAHU, STVA, and VACA do not have any significant relationship to stock price crash risk either directly or indirectly through firm performance.

Table 3. The Results of Regression Model

Dependent Variable: ROE	Dependent Variable: NCSKEW
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	Predicted Sign	Model 1	Predicted Sign	Model 2
VAHU	+	0.001 (0.005)	-	-0.062 (0.096)
STVA	+	0.128** (0.052)	-	0.144 (0.952)
VACA	+	0.404* (0.037)	-	0.958 (0.891)
SIZE (Control)	+	0.010* (0.002)	-	0.123 (0.043)
ROE (Intervening)			-	-0.271 (1.481)
Constant		-0.340 (0.068)		-4.074 (1.323)
R-square (R ²)		0.525		0.066
Sig. F Stat		0.000*		0.074***
N		152		152

Note: This table presents the correlation coefficient number (β), while the number between parentheses is the standard error. The *, **, and *** signs indicate significance at the levels of 1%, 5%, and 10%.

We have explored several previous studies in order to strengthen the results of this test. Our exploration showed that the results of this test are synchronous with previous studies. Exploration results have presented in the discussion section.

5. Discussion

Several studies show that intellectual capital (IC) has an important role in improving sustainable company performance and business progress (see e.g. Castillo et al., 2019; Lee and Lin, 2019; Oppong and Pattanayak, 2019; Secundo et al., 2020). However, the test results in this study prove that IC has no effect on stock crash risk on the Indonesia Stock Exchange (IDX). In addition, other results show that the company's performance as represented by return on equity (ROE) also has no effect on stock price crash risk. This means, IC only plays a role in controlling company performance and does not play a role in controlling share prices. [We believe that the potential endogeneity in these results. Lee et al. \(2020\) also experienced endogeneity on the results of their analysis that shows the government customer concentration is negatively associated with](#)

stock price crash risk. Further, they found that the likelihood that a supplier firm with a concentrated customer base experiences higher crash risk is attenuated by lower switching costs and is accentuated when the degree of information asymmetry is high. Therefore, we will present the exploration results of several previous studies in order to reveal the risk of stock price crashes in this discussion section.

Internationally, the efficiency of share price information is influenced by investors' understanding of the long-term relationship between stock market volatility and the uncertainty of international economic policy (Belcaid and Ghini, 2019). A study in France also shows that stock exchanges find it difficult to maintain the efficiency of stock information during global macroeconomic events (Boya, 2019). Hu et al. (2020) revealed that board reforms reduce crash risk by improving financial transparency and enhancing investment efficiency. In Indonesia, sub-optimal financial positions play a role in the corporate share repurchases decisions, while the enactment of the regulations has a significant effect on firms' undertaking share repurchases programs (Moin et al., 2020). In China, regulations that promote the efficiency of share prices also have an important role in controlling stock prices (He and Fang 2019). Thus, external factors, namely the ability of investors to analyze stock price volatility, macroeconomic events, financial transparency, and Government regulations play a greater role in controlling the risk of stock price crashes, while IC does not have an important role in controlling stock prices.

~~Studies in China show that regulations that promote the efficiency of share prices also have an important role in controlling stock prices (He and Fang 2019). Luo & Zang (2020) have proven that economic policy uncertainty is significantly and positively associated with aggregated stock price crash risk at the market level. Meanwhile, Wen et al. (2019) revealed that higher quality auditing can mitigate the impact of retail investor attention on firms' future crash risk. Another study shows that Chinese investor sentiment (CIS) also affects stock price volatility (Li, 2019). Likewise Ma et al. (2020) suggests that exposure to an undiversified corporate customer base can have a negative bearing on a firm's crash risk. The four studies indicate that economic policy, investor sentiment, and audit quality have a significant effect on the risk of stock price crashes. These two studies imply that companies have more interest in stock investment so that anomalies of information have the potential to be carried out by companies in order to increase company capital. This resulted in negative sentiment by investors towards the company. Thus, investor sentiment and government regulations that encourage an efficient market on the stock~~

~~exchange also play a role in stock price volatility. In our opinion, intellectual capital (IC) does not play a role in controlling the risk of falling share prices, while external factors such as macroeconomic events, investor sentiment, and regulations that promote efficient markets have a strong influence on the risk of falling share prices.~~

The results of previous research explorations indicate that intellectual capital (IC) does not function as an added value to the company and does not guarantee management quality to stakeholders. Meanwhile, the risk of share prices crashes is determined by information asymmetry about the performance of the listed companies. Practically, the opportunistic behavior of listed companies leads to inefficiency of information on the stock market. Government regulation is a tool used to minimize investor sentiment. The most anticipatory action possible is additional information that ensures the quality of company management. Quality assurance of company management can be interpreted by corporate governance (CG) convergence which includes five important aspects such as Culture, Leadership, Alignment, Systems, and Structure (Drew et al., 2020). Esqueda & O'Connor (2020) stated that CG quality is positively correlated with the company's life cycle. Correa-Garcia et al. (2020) also proven that CG has implications for the quality of sustainability reporting in Latin American business groups. In the end, we believe that IC affects the risk of stock price crashes when IC disclosure involves company management quality assurance indicated by CG convergence. It can be measured by adopting a corporate governance index of listed companies that focuses on four important aspects, including: 1. CEO duality, 2. Size of the board of directors, 3. Managements 'holdings and 4. Block shareholders' holding (Chen et al., 2007).

BAB 16. _____ Conclusions and implications

a. Conclusions

This study examines the effect of intellectual capital components on stock price crash risk by using firm performance as an intervening variable. This research is a quantitative study using secondary data on annual reports published by the IDX (Indonesia Stock Exchange) and stock price data published by Yahoo Finance. Intellectual capital variables are measured by the Value added Intellectual capital (VAIC) method written by Pulic (1998) and stock price crash risk variables are measured by NCSKEW developed by Chen et al. (2017). Data is

processed using the path analysis method to determine the direct effect and indirectly from each of the interrelated variables.

Simultaneously, the VAHU, STVA, and VACA variables have a significant relationship to firm performance but partially the VAHU does not have a significant effect like STVA and VACA. Capital employed has the biggest influence on firm performance. The findings state that the three intellectual capital variables do not have a significant direct or indirect relationship with stock price crash risk. This finding supports our exploration results which indicate that IC disclosure needs to consider the convergence of corporate governance in order to reveal the quality of company management.~~The findings show that enhancing intellectual capital is an important thing to do to improve firm performance but having good performance does not mean can reduce stock price crash risk in the future.~~

~~Based on the discussion section, it shows that intellectual capital (IC) does not play a role in controlling of stock price crash risk. Meanwhile, the results of previous research explorations indicate that the occurrence of macroeconomic events, investor sentiment and regulations that promote efficient markets are determining factor for stock price volatility which is connected to the stock price crash risk. In the end, we concluded that enhancing intellectual capital is an important thing to do to improve firm performance but having good performance does not mean can reduce stock price crash risk in the future.~~

b. Implications

This study provides a new knowledge that Intellectual Capital (IC) disclosure in the stock market needs to consider corporate governance (CG) convergence as an additional measure. Future studies can implement the CG index developed by Chen et al. (2007) to measure IC in listed companies. Thus, IC will promote the efficiency of information on the stock market which is very helpful for investors in purchasing decisions.

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Does Intellectual Capital Have Any Influence on Stock Price Crash Risk?

ABSTRACT

Purpose

This study^[1] aims to explore the influence between intellectual capital and the risk of stock price crashes by using company performance as an intervening variable.

Design / methodology / approach

This study empirically analyzes the impact of the efficiency of intellectual capital on stock price crash risk using a sample size of 152 companies listed on the Indonesia Stock Exchange^[2] during 2018. To test the research hypotheses, regression analysis and path analysis were applied. In addition, the researchers added exploration to several studies to strengthen the results of this study.^[3]

Findings

Our findings indicate that investors' optimistic (pessimistic) sentiment regarding stock price volatility has obscured aspects of the financial performance of listed companies. This finding implies that investor sentiment has dominated its^[4] influence on stock price crash risk so that the aspects of intellectual capital are obscured.

Originality / value

This research provides new information that intellectual capital disclosure in the stock market needs to include knowledge of the volatility of stock prices in order to reveal stock price crash risk.

Key word: Intellectual capital, stock price crash risk, firm performance, disclosure, social capital, corporate governance convergence

6.7. Introduction

Companies nowadays are being replaced with a knowledge-based, fast-changing, and technology-intensive economy, including in Indonesia. Most companies use technology to enhance the efficiency of company activities and depress expenses incurred. In this modern economy, for many firms, the most important and essential asset is intellectual capital (IC), in sharp contrast to times when physical capital was the power of companies. Previous studies have shown that company value and capability are often based on the intangible IC that it possesses

(Berzkalne and Zelgalve, 2014; Huang and Huang, 2020^[5]). Liu and Jiang (2020) have also proven that IC has a positive impact on business progress, such as increasing brand equity and social networking. In addition, IC provides various positive benefits for companies such as employees' job satisfaction and retention (Longo and Mura, 2011), increasing business innovation (Ornek and Ayas, 2015; Adesina, 2019), increasing the relevance of accounting information (Hayati et al., 2015), and cost efficiency (Martinez et al., 2020). In this study, we propose that the application of IC in the company is expected to reduce risk on stock price crashes.^[6]

The purpose of this study is to find out the relationship between efficiency of IC and stock price crash risk in the future by using firm performance as the mediating variable. Clarke et al. (2011) stated that IC has a positive influence on firm performance, which is characterized by three components of IC efficiency (ICE): human capital efficiency (HCE), structural capital efficiency (SCE), and capital employed efficiency (CEE). These factors could be a good indicator for company shareholders because a company with good ICE indicates that they have been using their resources efficiently. Several studies have proven that IC reflects good competence, skills, and knowledge, which can improve financial performance and increase stock returns (Lentjushenkova and Lapina, 2014; Zhou and Pan, 2018). Thus, the company can disclose information in accordance with the needs of the shareholders.

Based on a Taiwanese study by Chen et al. (2005), this study uses the quantitative measure, value added intellectual coefficient (VAIC), developed by Pulic (1998) as a measure of ICE. Data is collected for firms listed on the Indonesia Stock Exchange (IDX) in 2018. We used path analysis to determine whether there is any relation between IC, firm performance, and stock price crash risk. Prior VAIC studies have investigated the direct relationship between IC and performance, but there is no research on the relationship between IC and stock price crash risk. This study contributes to the literature by bridging this gap in the knowledge, that is, the relationship between IC and stock price crashes.

This paper proceeds as follows. Section 2 reviews the relevant literature and develops our hypotheses. Section 3 describes the data and research design. Section 4 presents the main empirical results. Section 5 discusses the findings. Section 6 concludes the paper.

7.8. Literature Review and Hypothesis

a. Strengths and Weaknesses of Measuring Intellectual Capital

Basically, IC is measured by various elements such as human capital, physical capital, structural capital, social capital, and relational capital. However, previous studies have shown that there are several drawbacks to IC measurement. Adesina (2019) measured IC with three components, namely human capital, physical capital, and structural capital; however, only human capital is positively related to all the three efficiencies (technical, allocative, and cost). Castillo et al. (2019) proved that capabilities of human resources are relevant for these organizations, as well as the internal processes and relationships with customers. On the issue of environmental protection, Yong et al. (2019) revealed that green human capital and green relational capital were influenced by green human resource management, but green structural capital was not significantly related to green human resource management. Yusoff et al. (2019) also revealed that green human capital does not have a positive relationship with business sustainability.

Although IC possesses weaknesses, its advantages have been demonstrated in several previous studies^[7]. Barrena-Martínez et al. (2020) proved that the three components of IC (relational capital, human capital, and structural capital) positively affect open innovation performance. Salvi et al. (2020) suggested a significantly positive relationship between all three components of IC^[8] and firm value, generating multiple implications for reporting entities, investors, regulators, and managers. Mahmood and Mubarik (2020) showed that specific policies aimed at developing the IC of a firm, which in turn can enable a firm to maintain a balance between innovation and market exploitation activities. Yusliza et al. (2020) indicated the contribution of green IC to be an intangible resource for organizations in achieving sustainable performance, providing a competitive advantage for future researchers^[9]. Dubic et al. (2021) revealed that the intellectual agility of employees positively influences the innovativeness of micro and small businesses, but this effect is strongly mediated through entrepreneurial leadership, meaning that human capital has an important role in business innovation. This study will explore the efficiency of IC using three measures (human capital, structural capital, and capital employed).

b. The Determinant of Information Efficiency

Internationally, the efficiency of share price information is influenced by investors' understanding of the long-term relationship between stock market volatility and the

uncertainty of international economic policy (Belcaid and Ghini, 2019). A study in France also shows that stock exchanges find it difficult to maintain the efficiency of stock information during global macroeconomic events (Boya, 2019). Hu et al. (2020) revealed that board reforms reduce crash risk by improving financial transparency and enhancing investment efficiency. In Indonesia, sub-optimal financial positions play a role in corporate share repurchase decisions, while the enactment of the regulations has a significant effect on firms undertaking share repurchase programs (Moin et al., 2020). In China, regulations that promote the efficiency of share prices also play an important role in controlling stock prices (He and Fang, 2019). Thus, external factors, namely the ability of investors to analyze stock price volatility, macroeconomic events, financial transparency, and government regulations, play a greater role in controlling the risk of stock price crashes, while IC does not play an important role in controlling stock prices.

Luo and Zang (2020) have proven that economic policy uncertainty is significantly and positively associated with aggregated stock price crash risk at the market level. Meanwhile, Wen et al. (2019) revealed that higher quality auditing can mitigate the impact of retail investor attention on firms' future crash risk. Lee et al. (2020) revealed that a supplier firm with a concentrated customer base experiences a higher crash risk, which is attenuated by lower switching costs and accentuated when the degree of information asymmetry is high.^[1.10] Another study shows that Chinese investor sentiment also affects stock price volatility (Li, 2019). Likewise, Ma et al. (2020) suggest that exposure to an undiversified corporate customer base can have a negative bearing on a firm's crash risk. The five studies indicate that economic policy, investor sentiment, and audit quality have a significant effect on the risk of stock price crashes.

c. Intellectual Capital Efficiency

IC represents a company's intangible knowledge assets in the form of information and knowledge resources (Kitts et al., 2001). Several studies have revealed that ICE can improve the performance of companies (see e.g., Clarke et al., 2011; Gogan et al., 2016; Asiaei and Jusoh, 2017; Mustapha and Abdelheq, 2018; McDowell, 2018; Sardo et al., 2018; Huang and Huang, 2020). Investors are quite interested in buying shares when the company has

implemented ICE. Lin et al. (2015) and Ozkan et al. (2017) show that the greater the ICE, the more it reduces stock price crashes.

Jerzak (2015) shows that human capital constitutes inborn skills and acquired skills, which, if invested efficiently, can strengthen the company's position, helping it gain competitive advantage. This means that HCE represents a selection of superior IC to be employed in the company's business. Meanwhile, Asiaei et al. (2018) have proven that there is a significant positive relationship between HCE levels and the use of a balanced performance measurement system. Dženopoljac et al. (2016) also revealed that HCE has a direct positive impact on the financial performance of companies. Therefore, companies that have a higher HCE are more likely to have a higher return on equity (ROE), a higher ROA, a higher ROIC^[11], and tend to be more profitable.

In general, various strategies have been carried out by many companies to regulate structural capital in order to optimize the overall business performance. IC plays a central role in determining the structural capital model used in companies. Gogan et al. (2015) posit that determining the right model in structural capital is essential to obtain a competitive advantage in the market. This study indicates that IC plays an important role in determining efficient structural capital so that the organization's desire to be competitive in the market can be achieved. In addition, Ciprian et al. (2012) explained that IC is not sufficient to determine the accuracy of structural capital sizes; it is necessary to complement positions on intangible assets that can help to determine company policies and decisions.

Andersson et al. (2006) revealed that shareholder demand is a higher return on capital employed, meaning that CEE represents IC, which can perform accurate calculations in capital investment in order to obtain optimal returns. Mørch et al. (2017) explained that CEE plays an important role in making investment decisions because accurate calculations are needed regarding the fitness of operations and the financial performance of investments. Thus, ICE plays an important role in investment decisions.

d. Intellectual Capital Efficiency Measurement Model on Stock Price Risk

Basically, the efficiency of ICE plays a role in the application of HCE, SCE, and CEE. This study will examine the effect of ICE on stock price risk. In the testing process, we combine the measurement model of the performance of intellectual potential in the knowledge

economy developed by Pulic (1998) and the calculation of the negative coefficient of firm-specific daily returns (NCSKEW) developed by Chen et al. (2017). ICE is calculated using three components, namely value-added human capital efficiency (VAHU), value-added structural capital (STVA), and value-added capital employed (VACA). Meanwhile, stock price risk is calculated using NCSKEW. More detailed calculations are explained in the methods section.

Several studies have used this model, which shows mixed results as well. Hejazi et al. (2016) found that increasing IC should increase firm value. Meanwhile, Kamukama and Sulait (2017) showed a positive and significant relationship between human capital, relational capital, and structural capital on competitive advantage. Another study [12] shows that the three sub-constructions of IC together have a positive and substantive relationship with business performance (Huang and Liu, 2005; Sharabati et al., 2010). The three [13] studies indicate that innovation and creation play a dominant role in describing the latent constructs of IC. Based on the discussion above, hypothesis (H1) is:

H1a: Human capital efficiency is positively related to firm performance

H1b: Structural capital efficiency is positively related to firm performance

H1c: Capital employed efficiency is positively related to firm performance

Chen et al. (2005) have confirmed that investors place higher value on companies with better ICE. Furthermore, Song (2015) has shown that the management tends to hide some negative information and suddenly release negative information in the future if the company has a higher level of accounting disclosure of IC. Dong and Zhang (2016) have also shown that environmental control, information and communication, and monitoring components significantly reduce the risk of accidents, while risk assessment and control activity components do not show any relation to the risk of a stock price crash. Ben-Nasr and Ghouma (2018) explained that employee welfare is also a factor that contributes to the risk of stock price crashes. Further analysis shows that a strong corporate governance mechanism can reduce the risk of rising stock price crashes in less unionized companies and that there is a negative impact of union strength on the risk of stock price crashes (Liao and Ouyang, 2017). Meanwhile, Anifowose et al. (2017) showed a positive relationship between IC as a whole and the market capitalization value of a company. Some of these studies imply that IC can

reduce the risk of stock investment. Based on the above discussion, hypothesis (H2) is as follows:

H2a: Human capital efficiency is negatively related to stock price crash risk

H2b: Structural capital efficiency is negatively related to stock price crash risk

H2c: Capital employed efficiency is negatively related to stock price crash risk

Bennett et al. (2020) explained that the management, directly or indirectly, learns from its firm's stock price, so that more informative stock prices should make the firm more productive. This means that the informativeness of stock prices indicates that the company's performance is better. Martani et al. (2009) mentioned that a company's financial performance is shown by the profitability ratio, and the market value ratio significantly influences returns in the company. Based on this, the following hypothesis (H3) can be formulated as:

H3: Firm performance is negatively related to stock price crash risk

IC owned by the company is expected to create added value so that it can improve company performance. Good firm performance is an indicator that will be considered by investors in making investment decisions. Cenciarelli et al. (2018) show that bankruptcy prediction models that include IC have superior predictive capabilities over standard models. Meanwhile, stock price crashes are very likely to occur if the organization's internal controls are ineffective. The effectiveness of internal control depends on the research and development (R&D) conducted by the company. Zhou and Pan (2018) explained that companies that develop IC require capital for R&D, so they are faced with financing constraints. This means that ICE supports the effectiveness of internal control. In addition, the level of social trust also plays a role in the risk of stock price crashes. According to Cao et al. (2016), social trust, as a socioeconomic factor, is negatively correlated with accident risk. Companies in areas of high social trust tend to hide bad news. The management tends to disclose more related information to acquire investors. Thus, ICE is needed as a corporate strategy to increase information transparency and financial performance, which will result in increasing investor confidence. Based on the discussion above, we can hypothesize (H4) that:

H4a: Human capital efficiency is negatively related to stock price crash risk by using firm performance as an intervening variable

H4b: Structural capital efficiency is negatively related to stock price crash risk by using firm performance as an intervening variable

H4c: Capital employed efficiency is negatively related to stock price crash risk by using firm performance as an intervening variable

8.9. Research Design

a. Sample

This study uses companies from various sectors as research objects and sample for the research. The sample was collected from **IDX's** [14] annual report data for 2018. We also obtained weekly stock data from Yahoo Finance. We then used the following selection criteria: First, similar to Khan and Watts (2009), we required that total assets and book values of equity for each firm be greater than zero. Second, to be included in the sample, a firm must have at least 20 weekly returns for each fiscal year. We also excluded incomplete company data and financial information. Finally, we obtained samples from 152 companies to apply to the study.

b. Measurement of Independent Variables

Chen et al. (2005) argue that VAIC and its three components, HCE, SCE, and CEE, represent the independent variables. In order to calculate VAIC, we have to know the amount of HCE, SCE, and CEE. This can be expressed in Formula 1.

$$VAIC = HCE + SCE + CEE \dots\dots\dots Formula 1$$

To measure VAIC, we need value added (VA) to be calculated. In its simplest form, VA is the difference between output and input. Output represents net sales revenues and input contains all the expenses incurred in earning the sales revenues except labor costs, which are considered to be a value-creating entity (Tan et al., 2008). This VA is also defined as the net value created by firms during the year (Chen et al., 2005). VA can be calculated using Formula 2.

$$VA = S - B = NI + T + DP + I + W \dots\dots\dots Formula 2$$

Notes : S is sales; B is cost of goods sold; NI is net income after tax; T is taxes; DP is depreciation; I is interest expense; and W is employee wages and salaries.

iv. Human Capital Efficiency

Human capital factors consist of skills, knowledge, productivity, competence, and all aspects that pertain to an employee in the work place. HCE can be calculated using a calculation developed by Pulic (1998), where HCE is calculated using the formula VAHU. VAHU calculations can be seen in Formula 3.

$$VAHU = VA/HC \dots\dots\dots\text{Formula 3}$$

v. *Structural Capital Efficiency*

Structural capital is an element in IC and consists of organizational networks, patents, strategy, and brand names. Based on Pulic (1998), we calculated SCE as in Formula 4. Meanwhile, SCE is calculated using STVA as in Formula 5.

$$SC = VA - HC \dots\dots\dots\text{Formula 4}$$

$$STVA = SC / VA \dots\dots\dots\text{Formula 5}$$

SCE is the dollar of SC within the firm, for every dollar of VA, and as HCE increases, SCE increases. If the efficiency measures for both HCE and SCE were calculated with VA as the numerator, a logical inconsistency would remain (Pulic, 1998).

vi. *Capital Employed Efficiency*

CEE is the efficiency that SCE and HCE fail to capture. Pulic (1998) argues that IC cannot create value on its own, and so it must be combined with capital (physical and financial) employed (CE). CEE shows how much VA is created by a dollar spent on CE. We could calculate CE as the total assets minus intangible assets and CEE is defined as VACA. VACA calculations can be seen in Formula 6.

$$VACA = VA / CE \dots\dots\dots\text{Formula 6}$$

c. Measurement of Dependent Variable

The risk of stock price crash is the risk of a significant stock price decline after the price had soared (Kim and Zhang, 2016). This variable was developed using a model developed by Chen et al. (2017), which can be seen in Formula 7.

$$NCSKEW = \frac{- [n(n-1)3/2 \sum_{T=1}^n (w_{i,T,t} - \bar{w}_{i,t})^3]}{[(n-1)(n-2)(\sum_{T=1}^n (w_{i,T,t} - \bar{w}_{i,t})^2)^{3/2}]} \dots\dots\dots\text{Formula 7}$$

Notes: $w_{i,T,t}$ is the company's weekly specific stock returns for T weeks in year t, $\bar{w}_{i,t}$ is the average weekly return of the company's specific stock for year t and n is the number

of weeks for year t . The larger $NCSKEW$ represents a greater negative slope rate of return, which means a greater risk of stock price crashes that can occur.

d. Measurement of Intervening Variable

This study uses firm performance as the intervening variable. We use ROE to analyze firm performance. We calculate this ratio with Formula 8.

$$ROE = \frac{\text{Earning after tax}}{\text{Equity}} \dots\dots\dots \text{Formula 8}$$

e. Empirical Models

This study uses path analysis that produce two model regressions to test our hypotheses.

Model I

$$ROE = \alpha + \beta1 VAHU + \beta2 STVA + \beta3 VACA + \beta4 SIZE - \mu$$

Model II

$$NCSKEW = \alpha - \beta1 STVA - \beta2 VACA - \beta3 AHU + \beta4 SIZE - \beta5 ROE - \mu$$

Notes: ROE is the ratio for measuring firm performance, NCSKEW is the negative coefficient of firm-specific daily returns as a proxy for stock price crash risk, VAHU is value-added human capital, STVA is value-added structural capital, VACA is value-added capital employed, and SIZE is firm size as the control variable in this study.

9.10. Results

a. Normality Test

Table 1 shows the significance value of Asymp. The Sig (2-tailed) is 0.200. The value is greater than 0.1. According to the basis of decision making in the Kolmogorov-Smirnov normality[.15] test above, it can be concluded that the data is normally distributed so that the assumptions or statements of normality in the regression model have been fulfilled for the data above.

Table1. Normal Probability Test Result

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		152
Normal Parameters ^{a,b}	Mean	0.000
	Std. Deviation	0.924

	Absolute	0.059
Most Extreme Differences	Positive	0.037
	Negative	-0.059
Test Statistic		0.059
Asymp. Sig. (2-tailed)		0.200 ^{c,d}

Notes:

- a. Test distribution is Normal
- b. Calculated from data
- c. Lilliefors Significance Correction
- d. This is a lower bound of the true significance

b. Multicollinearity Test

The basis for decision making from the multicollinearity test is the value of tolerance and VIF_[.16]. Based on the output table, it is known that the tolerance value of each variable is greater than 0.1. While the VIF value for each variable is less than 10. Then, according to the basis for the multicollinearity test decision making, we can conclude that there are no symptoms of multicollinearity in the regression model. Table 2 shows the results of the multicollinearity test.

Table 2. Multicollinearity Test Results

Model 1	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	-4.074	1.323		-3.079	0.002		
VAHU	-0.062	0.096	-0.103	-0.640	0.523	0.247	4.052
STVA	0.144	0.952	0.025	0.151	0.880	0.236	4.231
VACA	0.958	0.891	0.117	1.076	0.284	0.538	1.860
SIZE	0.123	0.043	0.248	2.857	0.005	0.847	1.181
ROE	-0.271	1.481	-0.021	-0.183	0.855	0.475	2.104

Note: Dependent Variable (NCSKEW)

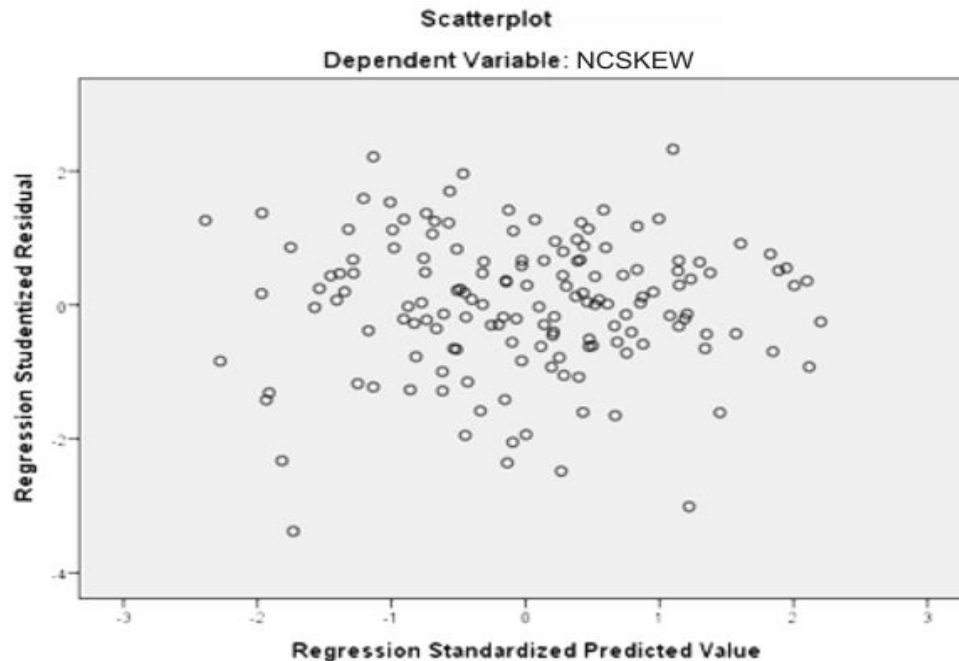
c. Heteroskedasticity Test

Based on Figure 1, we know that data dots spread above and below or around the number 0. We can then see that the dots are not just clustered above or below. The distribution of data points does not form a wavy pattern, widening then narrowing and then widening again. We can also see that the dots do not make a certain pattern. According to the analyses, we can conclude that there is no heteroscedasticity problem; so a good and ideal regression model can be fulfilled.

d. Path Analysis

In Table 3, Model 1 shows that the STVA and VACA coefficients have a significant positive effect on ROE at a significance level of 1% with a significance value of 0.015 and 0.000, respectively. While, based on Table 2, there is no significant relationship between VAHU and ROE at the 1% significance level; so we can conclude that H1(a) is rejected. Based on a beta test, VACA is the variable that most influences changes in ROE. The value of Sig. F-statistics shows that at a significance level of 1%, VAHU, VACA, and STVA simultaneously influence ROE. This result is a strong indicator that there is a relationship between IC and firm performance, thus supporting H1(b) and H1(c). That is, if a firm can use its IC more efficiently in one year, this can lead to a performance increase in the same year.

Figure 1. Heteroskedasticity Test Result



In Table 3, Model 2 shows that all of the components of IC do not have any significant relationship with stock price crash risk at the 1% significance level. From [Table 2\[.17\]](#) we also know that ROE does not have any significant influence on stock price crash risk. Furthermore, we use Model 1 and Model 2 for path analysis. After acquiring the numbers from Table 2, we calculated the indirect effect by multiplying the effect of the IC component with ROE and then ROE with stock price crash risk. Based on Table 2 and the path analysis calculation, VAHU has a direct effect on stock price crash risk of 0.103 while the indirect effect of VAHU on stock price crash risk through ROE is 0.000399. STVA has a direct effect on the risk of a stock price crash of 0.025 while STVA has an indirect effect on the risk of a stock price crash of 0.005922. Furthermore, the VACA component has a direct effect of 0.117 and an indirect effect of 0.01264 on the risk of stock price crashes. According to the principle of path analysis, if the indirect effect is greater than the direct effect, then it means there is a significant relationship in the indirect relationship between variables. We can conclude from the data that VAHU, STVA, and VACA do not have any significant relationship with stock price crash risk either directly or indirectly through firm performance.

Table 3. Results of the Regression Model

	Dependent Variable: ROE		Dependent Variable: NCSKEW	
	Predicted Sign	Model 1	Predicted Sign	Model 2
VAHU	+	0.001 (0.005)	-	-0.062 (0.096)
STVA	+	0.128** (0.052)	-	0.144 (0.952)
VACA	+	0.404* (0.037)	-	0.958 (0.891)
SIZE (Control)	+	0.010* (0.002)	-	0.123 (0.043)
ROE (Intervening)			-	-0.271 (1.481)
Constant		-0.340 (0.068)		-4.074 (1.323)
R-square (R ²)		0.525		0.066
Sig. F Stat		0.000*		0.074***
N		152		152

Note: This table presents the correlation coefficient number (β), while the number within parentheses is the standard error. *, **, and *** indicate significance at the levels 1%, 5%, and 10%, respectively.

10.11. Discussion

Several studies show that IC plays an important role in improving sustainable company performance and business progress (see e.g., Castillo et al., 2019; Lee and Lin, 2019; Oppong and Pattanayak, 2019; Secundo et al., 2020). However, the test results in this study prove that IC has no effect on stock crash risk on the IDX. In addition, other results show that the company's performance, as represented by ROE, also has no effect on stock price crash risk. We find that information inefficiency results in general distrust of stock markets in developing countries (Yang et al., 2019). Information inefficiency is a global problem that always exists in the stock market, although more prevalent in developing countries than developed countries (Boya, 2019; Bartram and Grinblatt, 2021). Meanwhile, Al-Yahyaee et al. (2020) explain that high liquidity that is not balanced with low volatility will weaken information efficiency in the stock market. This indicates that a company's financial performance appears to be no longer considered in the share purchase decision.

Investors' optimistic (pessimistic) sentiment toward stock prices seems to dominate its [18] influence on the operation of the stock market. The sentiment index built on social media has been shown to greatly influence the volatility of stock prices (Liang et al., 2020). The optimistic (pessimistic) sentiment of Internet search-based investors can also influence premium value in the United States stock market (Teti et al., 2020; Klemola, 2020). Meanwhile, Ni et al. (2019) reveal that the fluctuation of stock prices is more sensitive to the intraday sentiment of individuals. Chau et al. (2016) explain that sentiment-induced buying and selling is an important determinant of stock price variation. Based on explanations from various studies, we believe that investors' optimistic (pessimistic) sentiment toward stock price volatility dominates its [19] influence on buying or selling decisions, so that the financial performance aspects of listed companies are obscured in the stock market.

11.12. Conclusions and Implications

a. Conclusions

This study examines the effect of IC components on stock price crash risk by using firm performance as an intervening variable. This research is a quantitative study using secondary data on annual reports published by the IDX and stock price data published by Yahoo Finance. IC variables are measured by the VAIC method written by Pulic (1998) and stock price crash risk variables are measured by NCSKEW developed by Chen et al. (2017). Data was processed using the path analysis method to determine the direct effect and indirect effect from each of the interrelated variables.

Simultaneously, the VAHU, STVA, and VACA variables have a significant relationship to firm performance; however, partially, VAHU does not have a significant effect like STVA and VACA. Capital employed has the biggest influence on firm performance. The results state that the three IC variables do not have a significant direct or indirect relationship with stock price crash risk. This result is in line with several previous studies. So far, the optimistic (pessimistic) sentiment of investors regarding the volatility of share prices has obscured aspects of the financial performance of listed companies. We conclude that investor sentiment has dominated its [20] influence on stock price crash risk so that the IC aspect has become obscured.

b. Implications

So far, research on IC has been discussed in 700 articles written by leading authors at various universities (Dubic et al., 2020). However, there is no research that discusses IC disclosure on the stock market. This research provides an understanding that the stock market is driven by the optimistic (pessimistic) sentiment of investors. This fact implies that IC disclosure, which is proxied by the company's financial performance, becomes obscured, while investors prefer to analyze the volatility of stock prices as a parameter in buying or selling decisions. In future research, it is necessary to modify the measurement of the intellectual property associated with knowledge of stock price volatility.

Basically, the ability and knowledge for compiling a stock portfolio that reveals specific information about the company is needed to increase shareholders' confidence (Chance and Yang, 2007). Meanwhile, specific information about the company will produce idiosyncratic volatility, which is the best predictor of stock returns and is proven to have a positive impact on investors' heterogeneous beliefs (Kongsilp and Mateus, 2017; He et al., 2020). Zhan (2019) argues that there was a positive relationship between synchronization of stock price movements and stronger stock market volatility for emerging markets during the financial crisis from June 2007 to December 2008. As regards practical application, IC represents the knowledge and ability for preparing a stock portfolio that contains company-specific information, which is needed to minimize stock price crash risk.

Does Intellectual Capital Have Any Influence on Stock Price Crash Risk?

ABSTRACT

Purpose

This study^[.21] aims to explore the influence between intellectual capital and the risk of stock price crashes by using company performance as an intervening variable.

Design / methodology / approach

This study empirically analyzes the impact of the efficiency of intellectual capital on stock price crash risk using a sample size of 152 companies listed on the Indonesia Stock Exchange^[.22] during 2018. To test the research hypotheses, regression analysis and path analysis were applied. In addition, the researchers added exploration to several studies to strengthen the results of this study.^[.23]

Findings

Our findings indicate that investors' optimistic (pessimistic) sentiment regarding stock price volatility has obscured aspects of the financial performance of listed companies. This finding implies that investor sentiment has dominated its^[.24] influence on stock price crash risk so that the aspects of intellectual capital are obscured.

Originality / value

This research provides new information that intellectual capital disclosure in the stock market needs to include knowledge of the volatility of stock prices in order to reveal stock price crash risk.

Key word: Intellectual capital, stock price crash risk, firm performance, disclosure, social capital, corporate governance convergence

1. Introduction

Companies nowadays are being replaced with a knowledge-based, fast-changing, and technology-intensive economy, including in Indonesia. Most companies use technology to enhance the efficiency of company activities and depress expenses incurred. In this modern economy, for many firms, the most important and essential asset is intellectual capital (IC), in sharp contrast to times when physical capital was the power of companies. Previous studies have shown that company value and capability are often based on the intangible IC that it possesses

(Berzkalne and Zelgalve, 2014; Huang and Huang, 2020^[.25]). Liu and Jiang (2020) have also proven that IC has a positive impact on business progress, such as increasing brand equity and social networking. In addition, IC provides various positive benefits for companies such as employees' job satisfaction and retention (Longo and Mura, 2011), increasing business innovation (Ornek and Ayas, 2015; Adesina, 2019), increasing the relevance of accounting information (Hayati et al., 2015), and cost efficiency (Martinez et al., 2020). In this study, we propose that the application of IC in the company is expected to reduce risk on stock price crashes.^[.26]

The purpose of this study is to find out the relationship between efficiency of IC and stock price crash risk in the future by using firm performance as the mediating variable. Clarke et al. (2011) stated that IC has a positive influence on firm performance, which is characterized by three components of IC efficiency (ICE): human capital efficiency (HCE), structural capital efficiency (SCE), and capital employed efficiency (CEE). These factors could be a good indicator for company shareholders because a company with good ICE indicates that they have been using their resources efficiently. Several studies have proven that IC reflects good competence, skills, and knowledge, which can improve financial performance and increase stock returns (Lentjushenkova and Lapina, 2014; Zhou and Pan, 2018). Thus, the company can disclose information in accordance with the needs of the shareholders.

Based on a Taiwanese study by Chen et al. (2005), this study uses the quantitative measure, value added intellectual coefficient (VAIC), developed by Pulic (1998) as a measure of ICE. Data is collected for firms listed on the Indonesia Stock Exchange (IDX) in 2018. We used path analysis to determine whether there is any relation between IC, firm performance, and stock price crash risk. Prior VAIC studies have investigated the direct relationship between IC and performance, but there is no research on the relationship between IC and stock price crash risk. This study contributes to the literature by bridging this gap in the knowledge, that is, the relationship between IC and stock price crashes.

This paper proceeds as follows. Section 2 reviews the relevant literature and develops our hypotheses. Section 3 describes the data and research design. Section 4 presents the main empirical results. Section 5 discusses the findings. Section 6 concludes the paper.

2. Literature Review and Hypothesis

a. Strengths and Weaknesses of Measuring Intellectual Capital

Basically, IC is measured by various elements such as human capital, physical capital, structural capital, social capital, and relational capital. However, previous studies have shown that there are several drawbacks to IC measurement. Adesina (2019) measured IC with three components, namely human capital, physical capital, and structural capital; however, only human capital is positively related to all the three efficiencies (technical, allocative, and cost). Castillo et al. (2019) proved that capabilities of human resources are relevant for these organizations, as well as the internal processes and relationships with customers. On the issue of environmental protection, Yong et al. (2019) revealed that green human capital and green relational capital were influenced by green human resource management, but green structural capital was not significantly related to green human resource management. Yusoff et al. (2019) also revealed that green human capital does not have a positive relationship with business sustainability.

Although IC possesses weaknesses, its advantages have been demonstrated in several previous studies^[1.27]. Barrena-Martínez et al. (2020) proved that the three components of IC (relational capital, human capital, and structural capital) positively affect open innovation performance. Salvi et al. (2020) suggested a significantly positive relationship between all three components of IC^[1.28] and firm value, generating multiple implications for reporting entities, investors, regulators, and managers. Mahmood and Mubarik (2020) showed that specific policies aimed at developing the IC of a firm, which in turn can enable a firm to maintain a balance between innovation and market exploitation activities. Yusliza et al. (2020) indicated the contribution of green IC to be an intangible resource for organizations in achieving sustainable performance, providing a competitive advantage for future researchers^[1.29]. Dubic et al. (2021) revealed that the intellectual agility of employees positively influences the innovativeness of micro and small businesses, but this effect is strongly mediated through entrepreneurial leadership, meaning that human capital has an important role in business innovation. This study will explore the efficiency of IC using three measures (human capital, structural capital, and capital employed).

b. The Determinant of Information Efficiency

Internationally, the efficiency of share price information is influenced by investors' understanding of the long-term relationship between stock market volatility and the

uncertainty of international economic policy (Belcaid and Ghini, 2019). A study in France also shows that stock exchanges find it difficult to maintain the efficiency of stock information during global macroeconomic events (Boya, 2019). Hu et al. (2020) revealed that board reforms reduce crash risk by improving financial transparency and enhancing investment efficiency. In Indonesia, sub-optimal financial positions play a role in corporate share repurchase decisions, while the enactment of the regulations has a significant effect on firms undertaking share repurchase programs (Moin et al., 2020). In China, regulations that promote the efficiency of share prices also play an important role in controlling stock prices (He and Fang, 2019). Thus, external factors, namely the ability of investors to analyze stock price volatility, macroeconomic events, financial transparency, and government regulations, play a greater role in controlling the risk of stock price crashes, while IC does not play an important role in controlling stock prices.

Luo and Zang (2020) have proven that economic policy uncertainty is significantly and positively associated with aggregated stock price crash risk at the market level. Meanwhile, Wen et al. (2019) revealed that higher quality auditing can mitigate the impact of retail investor attention on firms' future crash risk. Lee et al. (2020) revealed that a supplier firm with a concentrated customer base experiences a higher crash risk, which is attenuated by lower switching costs and accentuated when the degree of information asymmetry is high. [30] Another study shows that Chinese investor sentiment also affects stock price volatility (Li, 2019). Likewise, Ma et al. (2020) suggest that exposure to an undiversified corporate customer base can have a negative bearing on a firm's crash risk. The five studies indicate that economic policy, investor sentiment, and audit quality have a significant effect on the risk of stock price crashes.

c. Intellectual Capital Efficiency

IC represents a company's intangible knowledge assets in the form of information and knowledge resources (Kitts et al., 2001). Several studies have revealed that ICE can improve the performance of companies (see e.g., Clarke et al., 2011; Gogan et al., 2016; Asiaei and Jusoh, 2017; Mustapha and Abdelheq, 2018; McDowell, 2018; Sardo et al., 2018; Huang and Huang, 2020). Investors are quite interested in buying shares when the company has

implemented ICE. Lin et al. (2015) and Ozkan et al. (2017) show that the greater the ICE, the more it reduces stock price crashes.

Jerzak (2015) shows that human capital constitutes inborn skills and acquired skills, which, if invested efficiently, can strengthen the company's position, helping it gain competitive advantage. This means that HCE represents a selection of superior IC to be employed in the company's business. Meanwhile, Asiaei et al. (2018) have proven that there is a significant positive relationship between HCE levels and the use of a balanced performance measurement system. Dženopoljac et al. (2016) also revealed that HCE has a direct positive impact on the financial performance of companies. Therefore, companies that have a higher HCE are more likely to have a higher return on equity (ROE), a higher ROA, a higher ROIC^[31], and tend to be more profitable.

In general, various strategies have been carried out by many companies to regulate structural capital in order to optimize the overall business performance. IC plays a central role in determining the structural capital model used in companies. Gogan et al. (2015) posit that determining the right model in structural capital is essential to obtain a competitive advantage in the market. This study indicates that IC plays an important role in determining efficient structural capital so that the organization's desire to be competitive in the market can be achieved. In addition, Ciprian et al. (2012) explained that IC is not sufficient to determine the accuracy of structural capital sizes; it is necessary to complement positions on intangible assets that can help to determine company policies and decisions.

Andersson et al. (2006) revealed that shareholder demand is a higher return on capital employed, meaning that CEE represents IC, which can perform accurate calculations in capital investment in order to obtain optimal returns. Mørch et al. (2017) explained that CEE plays an important role in making investment decisions because accurate calculations are needed regarding the fitness of operations and the financial performance of investments. Thus, ICE plays an important role in investment decisions.

d. Intellectual Capital Efficiency Measurement Model on Stock Price Risk

Basically, the efficiency of ICE plays a role in the application of HCE, SCE, and CEE. This study will examine the effect of ICE on stock price risk. In the testing process, we combine the measurement model of the performance of intellectual potential in the knowledge

economy developed by Pulic (1998) and the calculation of the negative coefficient of firm-specific daily returns (NCSKEW) developed by Chen et al. (2017). ICE is calculated using three components, namely value-added human capital efficiency (VAHU), value-added structural capital (STVA), and value-added capital employed (VACA). Meanwhile, stock price risk is calculated using NCSKEW. More detailed calculations are explained in the methods section.

Several studies have used this model, which shows mixed results as well. Hejazi et al. (2016) found that increasing IC should increase firm value. Meanwhile, Kamukama and Sulait (2017) showed a positive and significant relationship between human capital, relational capital, and structural capital on competitive advantage. Another study [32] shows that the three sub-constructions of IC together have a positive and substantive relationship with business performance (Huang and Liu, 2005; Sharabati et al., 2010). The three [33] studies indicate that innovation and creation play a dominant role in describing the latent constructs of IC. Based on the discussion above, hypothesis (H1) is:

H1a: Human capital efficiency is positively related to firm performance

H1b: Structural capital efficiency is positively related to firm performance

H1c: Capital employed efficiency is positively related to firm performance

Chen et al. (2005) have confirmed that investors place higher value on companies with better ICE. Furthermore, Song (2015) has shown that the management tends to hide some negative information and suddenly release negative information in the future if the company has a higher level of accounting disclosure of IC. Dong and Zhang (2016) have also shown that environmental control, information and communication, and monitoring components significantly reduce the risk of accidents, while risk assessment and control activity components do not show any relation to the risk of a stock price crash. Ben-Nasr and Ghouma (2018) explained that employee welfare is also a factor that contributes to the risk of stock price crashes. Further analysis shows that a strong corporate governance mechanism can reduce the risk of rising stock price crashes in less unionized companies and that there is a negative impact of union strength on the risk of stock price crashes (Liao and Ouyang, 2017). Meanwhile, Anifowose et al. (2017) showed a positive relationship between IC as a whole and the market capitalization value of a company. Some of these studies imply that IC can

reduce the risk of stock investment. Based on the above discussion, hypothesis (H2) is as follows:

H2a: Human capital efficiency is negatively related to stock price crash risk

H2b: Structural capital efficiency is negatively related to stock price crash risk

H2c: Capital employed efficiency is negatively related to stock price crash risk

Bennett et al. (2020) explained that the management, directly or indirectly, learns from its firm's stock price, so that more informative stock prices should make the firm more productive. This means that the informativeness of stock prices indicates that the company's performance is better. Martani et al. (2009) mentioned that a company's financial performance is shown by the profitability ratio, and the market value ratio significantly influences returns in the company. Based on this, the following hypothesis (H3) can be formulated as:

H3: Firm performance is negatively related to stock price crash risk

IC owned by the company is expected to create added value so that it can improve company performance. Good firm performance is an indicator that will be considered by investors in making investment decisions. Cenciarelli et al. (2018) show that bankruptcy prediction models that include IC have superior predictive capabilities over standard models. Meanwhile, stock price crashes are very likely to occur if the organization's internal controls are ineffective. The effectiveness of internal control depends on the research and development (R&D) conducted by the company. Zhou and Pan (2018) explained that companies that develop IC require capital for R&D, so they are faced with financing constraints. This means that ICE supports the effectiveness of internal control. In addition, the level of social trust also plays a role in the risk of stock price crashes. According to Cao et al. (2016), social trust, as a socioeconomic factor, is negatively correlated with accident risk. Companies in areas of high social trust tend to hide bad news. The management tends to disclose more related information to acquire investors. Thus, ICE is needed as a corporate strategy to increase information transparency and financial performance, which will result in increasing investor confidence. Based on the discussion above, we can hypothesize (H4) that:

H4a: Human capital efficiency is negatively related to stock price crash risk by using firm performance as an intervening variable

H4b: Structural capital efficiency is negatively related to stock price crash risk by using firm performance as an intervening variable

H4c: Capital employed efficiency is negatively related to stock price crash risk by using firm performance as an intervening variable

3. Research Design

a. Sample

This study uses companies from various sectors as research objects and sample for the research. The sample was collected from **IDX's** [34] annual report data for 2018. We also obtained weekly stock data from Yahoo Finance. We then used the following selection criteria: First, similar to Khan and Watts (2009), we required that total assets and book values of equity for each firm be greater than zero. Second, to be included in the sample, a firm must have at least 20 weekly returns for each fiscal year. We also excluded incomplete company data and financial information. Finally, we obtained samples from 152 companies to apply to the study.

b. Measurement of Independent Variables

Chen et al. (2005) argue that VAIC and its three components, HCE, SCE, and CEE, represent the independent variables. In order to calculate VAIC, we have to know the amount of HCE, SCE, and CEE. This can be expressed in Formula 1.

$$VAIC = HCE + SCE + CEE \dots\dots\dots Formula 1$$

To measure VAIC, we need value added (VA) to be calculated. In its simplest form, VA is the difference between output and input. Output represents net sales revenues and input contains all the expenses incurred in earning the sales revenues except labor costs, which are considered to be a value-creating entity (Tan et al., 2008). This VA is also defined as the net value created by firms during the year (Chen et al., 2005). VA can be calculated using Formula 2.

$$VA = S - B = NI + T + DP + I + W \dots\dots\dots Formula 2$$

Notes : S is sales; B is cost of goods sold; NI is net income after tax; T is taxes; DP is depreciation; I is interest expense; and W is employee wages and salaries.

i. Human Capital Efficiency

Human capital factors consist of skills, knowledge, productivity, competence, and all aspects that pertain to an employee in the work place. HCE can be calculated using a calculation developed by Pulic (1998), where HCE is calculated using the formula VAHU. VAHU calculations can be seen in Formula 3.

$$VAHU = VA/HC \dots\dots\dots\text{Formula 3}$$

ii. *Structural Capital Efficiency*

Structural capital is an element in IC and consists of organizational networks, patents, strategy, and brand names. Based on Pulic (1998), we calculated SCE as in Formula 4. Meanwhile, SCE is calculated using STVA as in Formula 5.

$$SC = VA - HC \dots\dots\dots\text{Formula 4}$$

$$STVA = SC / VA \dots\dots\dots\text{Formula 5}$$

SCE is the dollar of SC within the firm, for every dollar of VA, and as HCE increases, SCE increases. If the efficiency measures for both HCE and SCE were calculated with VA as the numerator, a logical inconsistency would remain (Pulic, 1998).

iii. *Capital Employed Efficiency*

CEE is the efficiency that SCE and HCE fail to capture. Pulic (1998) argues that IC cannot create value on its own, and so it must be combined with capital (physical and financial) employed (CE). CEE shows how much VA is created by a dollar spent on CE. We could calculate CE as the total assets minus intangible assets and CEE is defined as VACA. VACA calculations can be seen in Formula 6.

$$VACA = VA / CE \dots\dots\dots\text{Formula 6}$$

c. Measurement of Dependent Variable

The risk of stock price crash is the risk of a significant stock price decline after the price had soared (Kim and Zhang, 2016). This variable was developed using a model developed by Chen et al. (2017), which can be seen in Formula 7.

$$NCSKEW = \frac{- [n(n-1)3/2 \sum_{T=1}^n (w_{i,T,t} - \bar{w}_{i,t})^3]}{[(n-1)(n-2)(\sum_{T=1}^n (w_{i,T,t} - \bar{w}_{i,t})^2)^{3/2}]} \dots\dots\dots\text{Formula 7}$$

Notes: $w_{i,T,t}$ is the company's weekly specific stock returns for T weeks in year t, $\bar{w}_{i,t}$ is the average weekly return of the company's specific stock for year t and n is the number

of weeks for year t . The larger $NCSKEW$ represents a greater negative slope rate of return, which means a greater risk of stock price crashes that can occur.

d. Measurement of Intervening Variable

This study uses firm performance as the intervening variable. We use ROE to analyze firm performance. We calculate this ratio with Formula 8.

$$ROE = \frac{\text{Earning after tax}}{\text{Equity}} \dots\dots\dots \text{Formula 8}$$

e. Empirical Models

This study uses path analysis that produce two model regressions to test our hypotheses.

Model I

$$ROE = \alpha + \beta1 VAHU + \beta2 STVA + \beta3 VACA + \beta4 SIZE - \mu$$

Model II

$$NCSKEW = \alpha - \beta1 STVA - \beta2 VACA - \beta3 AHU + \beta4 SIZE - \beta5 ROE - \mu$$

Notes: ROE is the ratio for measuring firm performance, NCSKEW is the negative coefficient of firm-specific daily returns as a proxy for stock price crash risk, VAHU is value-added human capital, STVA is value-added structural capital, VACA is value-added capital employed, and SIZE is firm size as the control variable in this study.

4. Results

a. Normality Test

Table 1 shows the significance value of Asymp. The Sig (2-tailed) is 0.200. The value is greater than 0.1. According to the basis of decision making in the Kolmogorov-Smirnov normality[.35] test above, it can be concluded that the data is normally distributed so that the assumptions or statements of normality in the regression model have been fulfilled for the data above.

Table1. Normal Probability Test Result

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		152
Normal Parameters ^{a,b}	Mean	0.000
	Std. Deviation	0.924

	Absolute	0.059
Most Extreme Differences	Positive	0.037
	Negative	-0.059
Test Statistic		0.059
Asymp. Sig. (2-tailed)		0.200 ^{c,d}

Notes:

- a. Test distribution is Normal
- b. Calculated from data
- c. Lilliefors Significance Correction
- d. This is a lower bound of the true significance

b. Multicollinearity Test

The basis for decision making from the multicollinearity test is the value of tolerance and VIF_[.36]. Based on the output table, it is known that the tolerance value of each variable is greater than 0.1. While the VIF value for each variable is less than 10. Then, according to the basis for the multicollinearity test decision making, we can conclude that there are no symptoms of multicollinearity in the regression model. Table 2 shows the results of the multicollinearity test.

Table 2. Multicollinearity Test Results

Model 1	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	-4.074	1.323		-3.079	0.002		
VAHU	-0.062	0.096	-0.103	-0.640	0.523	0.247	4.052
STVA	0.144	0.952	0.025	0.151	0.880	0.236	4.231
VACA	0.958	0.891	0.117	1.076	0.284	0.538	1.860
SIZE	0.123	0.043	0.248	2.857	0.005	0.847	1.181
ROE	-0.271	1.481	-0.021	-0.183	0.855	0.475	2.104

Note: Dependent Variable (NCSKEW)

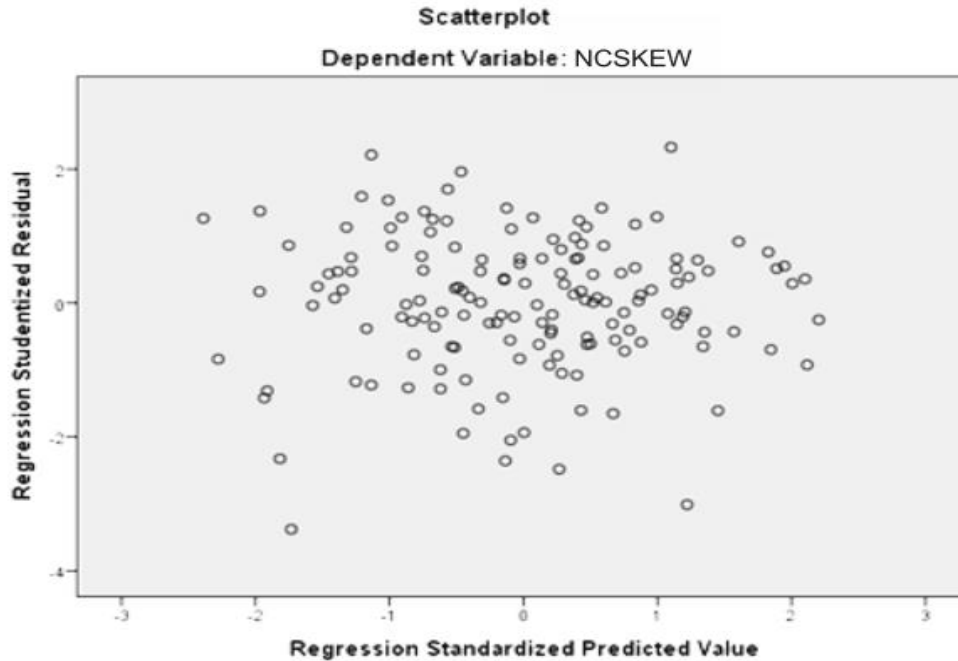
c. Heteroskedasticity Test

Based on Figure 1, we know that data dots spread above and below or around the number 0. We can then see that the dots are not just clustered above or below. The distribution of data points does not form a wavy pattern, widening then narrowing and then widening again. We can also see that the dots do not make a certain pattern. According to the analyses, we can conclude that there is no heteroscedasticity problem; so a good and ideal regression model can be fulfilled.

d. Path Analysis

In Table 3, Model 1 shows that the STVA and VACA coefficients have a significant positive effect on ROE at a significance level of 1% with a significance value of 0.015 and 0.000, respectively. While, based on Table 2, there is no significant relationship between VAHU and ROE at the 1% significance level; so we can conclude that H1(a) is rejected. Based on a beta test, VACA is the variable that most influences changes in ROE. The value of Sig. F-statistics shows that at a significance level of 1%, VAHU, VACA, and STVA simultaneously influence ROE. This result is a strong indicator that there is a relationship between IC and firm performance, thus supporting H1(b) and H1(c). That is, if a firm can use its IC more efficiently in one year, this can lead to a performance increase in the same year.

Figure 1. Heteroskedasticity Test Result



In Table 3, Model 2 shows that all of the components of IC do not have any significant relationship with stock price crash risk at the 1% significance level. From Table 2^[37] we also know that ROE does not have any significant influence on stock price crash risk. Furthermore, we use Model 1 and Model 2 for path analysis. After acquiring the numbers from Table 2, we calculated the indirect effect by multiplying the effect of the IC component with ROE and then ROE with stock price crash risk. Based on Table 2 and the path analysis calculation, VAHU has a direct effect on stock price crash risk of 0.103 while the indirect effect of VAHU on stock price crash risk through ROE is 0.000399. STVA has a direct effect on the risk of a stock price crash of 0.025 while STVA has an indirect effect on the risk of a stock price crash of 0.005922. Furthermore, the VACA component has a direct effect of 0.117 and an indirect effect of 0.01264 on the risk of stock price crashes. According to the principle of path analysis, if the indirect effect is greater than the direct effect, then it means there is a significant relationship in the indirect relationship between variables. We can conclude from the data that VAHU, STVA, and VACA do not have any significant relationship with stock price crash risk either directly or indirectly through firm performance.

Table 3. Results of the Regression Model

	Dependent Variable: ROE		Dependent Variable: NCSKEW	
	Predicted Sign	Model 1	Predicted Sign	Model 2
VAHU	+	0.001 (0.005)	-	-0.062 (0.096)
STVA	+	0.128** (0.052)	-	0.144 (0.952)
VACA	+	0.404* (0.037)	-	0.958 (0.891)
SIZE (Control)	+	0.010* (0.002)	-	0.123 (0.043)
ROE (Intervening)			-	-0.271 (1.481)
Constant		-0.340 (0.068)		-4.074 (1.323)
R-square (R ²)		0.525		0.066
Sig. F Stat		0.000*		0.074***
N		152		152

Note: This table presents the correlation coefficient number (β), while the number within parentheses is the standard error. *, **, and *** indicate significance at the levels 1%, 5%, and 10%, respectively.

5. Discussion

Several studies show that IC plays an important role in improving sustainable company performance and business progress (see e.g., Castillo et al., 2019; Lee and Lin, 2019; Oppong and Pattanayak, 2019; Secundo et al., 2020). However, the test results in this study prove that IC has no effect on stock crash risk on the IDX. In addition, other results show that the company's performance, as represented by ROE, also has no effect on stock price crash risk. We find that information inefficiency results in general distrust of stock markets in developing countries (Yang et al., 2019). Information inefficiency is a global problem that always exists in the stock market, although more prevalent in developing countries than developed countries (Boya, 2019; Bartram and Grinblatt, 2021). Meanwhile, Al-Yahyaee et al. (2020) explain that high liquidity that is not balanced with low volatility will weaken information efficiency in the stock market. This indicates that a company's financial performance appears to be no longer considered in the share purchase decision.

Investors' optimistic (pessimistic) sentiment toward stock prices seems to dominate its influence on the operation of the stock market. The sentiment index built on social media has been shown to greatly influence the volatility of stock prices (Liang et al., 2020). The optimistic (pessimistic) sentiment of Internet search-based investors can also influence premium value in the United States stock market (Teti et al., 2020; Klemola, 2020). Meanwhile, Ni et al. (2019) reveal that the fluctuation of stock prices is more sensitive to the intraday sentiment of individuals. Chau et al. (2016) explain that sentiment-induced buying and selling is an important determinant of stock price variation. Based on explanations from various studies, we believe that investors' optimistic (pessimistic) sentiment toward stock price volatility dominates its influence on buying or selling decisions, so that the financial performance aspects of listed companies are obscured in the stock market.

6. Conclusions and Implications

a. Conclusions

This study examines the effect of IC components on stock price crash risk by using firm performance as an intervening variable. This research is a quantitative study using secondary data on annual reports published by the IDX and stock price data published by Yahoo Finance. IC variables are measured by the VAIC method written by Pulic (1998) and stock price crash risk variables are measured by NCSKEW developed by Chen et al. (2017). Data was processed using the path analysis method to determine the direct effect and indirect effect from each of the interrelated variables.

Simultaneously, the VAHU, STVA, and VACA variables have a significant relationship to firm performance; however, partially, VAHU does not have a significant effect like STVA and VACA. Capital employed has the biggest influence on firm performance. The results state that the three IC variables do not have a significant direct or indirect relationship with stock price crash risk. This result is in line with several previous studies. So far, the optimistic (pessimistic) sentiment of investors regarding the volatility of share prices has obscured aspects of the financial performance of listed companies. We conclude that investor sentiment has dominated its influence on stock price crash risk so that the IC aspect has become obscured.

b. Implications

So far, research on IC has been discussed in 700 articles written by leading authors at various universities (Dubic et al., 2020). However, there is no research that discusses IC disclosure on the stock market. This research provides an understanding that the stock market is driven by the optimistic (pessimistic) sentiment of investors. This fact implies that IC disclosure, which is proxied by the company's financial performance, becomes obscured, while investors prefer to analyze the volatility of stock prices as a parameter in buying or selling decisions. In future research, it is necessary to modify the measurement of the intellectual property associated with knowledge of stock price volatility.

Basically, the ability and knowledge for compiling a stock portfolio that reveals specific information about the company is needed to increase shareholders' confidence (Chance and Yang, 2007). Meanwhile, specific information about the company will produce idiosyncratic volatility, which is the best predictor of stock returns and is proven to have a positive impact on investors' heterogeneous beliefs (Kongsilp and Mateus, 2017; He et al., 2020). Zhan (2019) argues that there was a positive relationship between synchronization of stock price movements and stronger stock market volatility for emerging markets during the financial crisis from June 2007 to December 2008. As regards practical application, IC represents the knowledge and ability for preparing a stock portfolio that contains company-specific information, which is needed to minimize stock price crash risk.



**Does Intellectual Capital Have Any Influence On Stock Price
Crash Risk?**

Journal:	<i>Journal of Intellectual Capital</i>
Manuscript ID	JIC-09-2020-0306.R1
Manuscript Type:	Research Paper
Keywords:	Intellectual capital, stock price crash risk, firm performance, Disclosure, investor sentiment, volatility
Abstract:	

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MANUSCRIPT DETAILS

: Does Intellectual Capital Have Any Influence On Stock Price Crash Risk?

:paper aims to explore the influence between intellectual capital and the risk of stock price crashes by using company performance as an intervening variable.study empirically analyzes the impact of efficiency of intellectual capital on stock price crash risk using 152 sample of companies listed on Indonesia Stock Exchange (IDX) in the period of 2018. To test the research hypotheses, regression analysis and path analysis are applied. In addition, the researchers added exploration to several studies to strengthen the results of this study.findings indicate that investors' optimistic (pessimistic) sentiment regarding stock price volatility has obscured aspects of the financial performance of listed companies. This finding implies that investor sentiment has dominated its influence on stock price crash risk, so that the aspects of intellectual capital are obscured._RESEARCH_LIMITATIONS/IMPLICATIONS__(LIMIT_100_WORDS) :No data available._PRACTICAL_IMPLICATIONS__(LIMIT_100_WORDS) :No data available.research provides new information that intellectual capital disclosure in the stock market needs to involve a knowledge of the volatility of stock prices in order to reveal stock price crash risk.

A. RESPONSE TO REVIEWER COMMENTS

Manuscript ID : ID JIC-09-2020-0306

Manuscript Title : Does Intellectual Capital Have Any Influence On Stock Price Crash Risk?

Reviewer 1, the first comment

1. The paper contribution is not clear; I suggest specifying the gap that this article aims at facing to.

Responses:

1. We have added an explanation in some parts of the text:

a. In **Abstract, Originality/Value**, The explanation in this part is as follows:

“This research provides new information that intellectual capital disclosure in the stock market needs to involve a knowledge of the volatility of stock prices in order to reveal stock price crash risk”.

b. In **part 6, b.Implications**, the explanation in this part is as follows:

“So far, research on intellectual capital (IC) has been discussed in 700 articles written by leading authors at various universities (Dubic et al., 2020). However, there is no research that discusses IC disclosure on the stock market. This research provides an understanding that the stock market is driven by the optimistic (pessimistic) sentiment of investors. This fact implies that intellectual capital disclosure, which is proxied by the company's financial performance becomes obscured, while Investors prefer to analyze the volatility of stock prices as a parameter in buying or selling decisions. In further research, it is necessary to modify the measurement of the intellectual property associated with knowledge of stock price volatility”.

Additional scientific sources:

Dabić, M. et al., (2020). Two decades of the Journal of Intellectual Capital: a bibliometric overview and an agenda for future research. *Journal of Intellectual Capital*, ahead-of-print.

Reviewer 1, the second comment

2. The literature review should be strengthened including some other relevant and recent studies about intellectual capital disclosure and value relevance.

Responses:

1. We have added an explanation in the section 2. Literature Review and Hypothesis, a. Strengths and Weaknesses of Measuring Intellectual Capital, Additions to this section are as follows:

- a. The first paragraph:

“Basically, intellectual capital (IC) is measured by various elements such as human capital, physical capital, structural capital, social capital, and relational capital. However, several previous studies have shown that there are several drawbacks to IC measurement. Adesina (2019) has measured IC with three components, namely human capital, physical capital and structural capital, however only human capital is positively related to all the three efficiency (technical, allocative, and cost). Castillo et al. (2019) proved that capabilities of human resources are relevant for these organizations, as well as the internal processes, and the relationships with customers. On the issue of environmental protection, Yong et al. (2019) revealed that green human capital and green relational capital were influenced by green human resource management, but green structural capital was not significantly related to green human resource management. Yusoff et al. (2019) also revealed that green human capital does not have a positive relationship with business sustainability”.

- b. The second paragraph:

“Although there are various weaknesses of intellectual capital (IC), its advantages have been demonstrated in several previous studies. Barrena-Martínez et al. (2020) proved that the three components of IC (relational capital, human capital, and structural capital) positively affect open innovation (OI) performance. Salvi et al. (2020) suggested a significantly positive relationship between all three components of IC (structural, human, social and relationship) and firm value, generating multiple implications for reporting entities, investors, regulators, and managers. Mahmood and Mubarik (2020) showed that specific policies aimed at developing IC of a firm, which in turn can enable a firm to maintain a balance between innovation and market exploitation activities. Yusliza et al. (2020) revealed that the contribution of green intellectual capital as an intangible resource for organizations in achieving sustainable performance and a competitive advantage for future researchers. Dubic et al. (2021) revealed that the intellectual agility

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3 *of employees positively influences the innovativeness of micro and small businesses, but*
4 *this effect is strongly mediated through entrepreneurial leadership. It means that human*
5 *capital has an important role in business innovation. This study will explore the*
6 *efficiency of intellectual capital using three measures (Human capital, Structural capital*
7 *and Capital employed)".*
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14 2. We have added an explanation in the section 2. Literature Review and Hypothesis, b.The
15 Determinant of Information Efficiency, Additions to this section are as follows:

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17 a. The first paragraph

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19 *"Internationally, the efficiency of share price information is influenced by investors'*
20 *understanding of the long-term relationship between stock market volatility and the*
21 *uncertainty of international economic policy (Belcaid and Ghini, 2019). A study in*
22 *France also shows that stock exchanges find it difficult to maintain the efficiency of*
23 *stock information during global macroeconomic events (Boya, 2019). Hu et al. (2020)*
24 *revealed that board reforms reduce crash risk by improving financial transparency and*
25 *enhancing investment efficiency. In Indonesia, sub-optimal financial positions play a*
26 *role in the corporate share repurchases decisions, while the enactment of the*
27 *regulations has a significant effect on firms' undertaking share repurchases programs*
28 *(Moin et al., 2020). In China, regulations that promote the efficiency of share prices*
29 *also have an important role in controlling stock prices (He and Fang 2019). Thus,*
30 *external factors, namely the ability of investors to analyze stock price*
31 *volatility, macroeconomic events, financial transparency, and Government regulations*
32 *are determinants of information efficiency in the stock market".*
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43 b. The second paragraph

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45 *"Luo and Zang (2020) have proven that economic policy uncertainty is significantly*
46 *and positively associated with aggregated stock price crash risk at the market level.*
47 *Meanwhile, Wen et al. (2019) revealed that higher quality auditing can mitigate the*
48 *impact of retail investor attention on firms' future crash risk. Lee at al. (2020) revealed*
49 *that a supplier firm with a concentrated customer base experiences higher crash risk is*
50 *attenuated by lower switching costs and is accentuated when the degree of information*
51 *asymmetry is high. Another study shows that Chinese investor sentiment (CIS) also*
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3 *affects stock price volatility (Li, 2019). Likewise Ma et al. (2020) suggests that exposure*
4 *to an undiversified corporate customer base can have a negative bearing on a firm's*
5 *crash risk. The five studies show that economic policy, investor sentiment, and audit*
6 *quality are determinants of the efficiency of information in the stock market”.*
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12 Additional scientific sources:

13 Yong, J. Y. et al., (2019). Nexus between green intellectual capital and green human
14 resource management. *Journal of Cleaner Production*, 215 (April 2019), 364-
15 374.
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18 Yusoff, Y. M. et al., (2019). Do all elements of green intellectual capital contribute
19 toward business sustainability? Evidence from the Malaysian context using
20 the Partial Least Squares method. *Journal of Cleaner Production*, 234
21 (October 2019), 626-637.
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25 Barrena-Martínez, J. et al., (2020). Joint forces: Towards an integration of intellectual
26 capital theory and the open innovation paradigm. *Journal of Business*
27 *Research*, 112 (May 2020), 261-270.
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30 Salvi, A. et al., (2020). Intellectual capital disclosure in integrated reports: The effect on
31 firm value. *Technological Forecasting and Social Change*, 160 (November
32 2020), 120228.
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36 Mahmood, T. and Mubarik, M. S. (2020). Balancing innovation and exploitation in the
37 fourth industrial revolution: Role of intellectual capital and technology
38 absorptive capacity. *Technological Forecasting and Social Change*, 160
39 (November 2020), 120248.
40
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43 Yusliza, M. Y. et al. (2020). A structural model of the impact of green intellectual capital
44 on sustainable performance. *Journal of Cleaner Production*, 249 (March
45 2020), 119334.
46
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48 Dubic, M. et al. (2021). Intellectual agility and innovation in micro and small businesses:
49 The mediating role of entrepreneurial leadership. *Journal of Business*
50 *Research*, 123 (February 2021), 683-695.
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53 Hu, j. et al., (2020). Corporate board reforms around the world and stock price crash risk.
54 *Journal of Corporate Finance*, 62(2020), 101557.
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3 Moin, A. et al.,(2020). In search of stock repurchases determinants in listed Indonesian
4 firms during regulatory changes. *Journal of Economic Behavior and*
5 *Organization*, 176 (August 2020), 145-165.

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8 Lee, S. M. et al., (2020). Customer concentration and stock price crash risk. *Journal of*
9 *Business Research*, 110 (2020), 327–346

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11 Wen, F. et al., (2019). Retail investor attention and stock price crash risk: Evidence from
12 China. *International Review of Financial Analysis*, 65 (2019), 101376.

13
14 Luo, Y. and Zang, C. (2020). Economic policy uncertainty and stock price crash risk.
15 *Research in International Business and Finance*, 51 (January 2020), 101112.

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17 Ma, X. et al.,(2020). Corporate customer concentration and stock price crash risk. *Journal*
18 *of Banking & Finance*, 119 (October 2020), 105903.

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24 **Reviewer 1, the third comment**

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26 **3. Are the methods employed appropriate?: Yes**

27 **Responses:**

28 Done.

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33 **Reviewer 1, the fourth comment**

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35 **4. Results are not always clear, I suggest improving the explanation of them and the**
36 **discussion section**

37 **Responses:**

38 We have deleted the 2nd and 3rd paragraphs, while we also provided an additional explanation to
39 replace the two deleted paragraphs. In **part 5, Discussion**, the explanation in this part is as
40 follows:

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44 a. The first paragraph, line 6-13:

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46 *“We find that information inefficiency results in general distrust of stock markets in*
47 *developing countries (Yang et al., 2019). Information inefficiency is a global problem*
48 *that always exists in the stock market, even though it is more present in developing*
49 *countries than developed countries (Boya, 2019; Bartram and Grinblatt, 2021).*
50 *Meanwhile, Al-Yahyaee et al. (2020) explain that high liquidity that is not balanced with*
51 *low volatility will weaken information efficiency in the stock market. This indicates that*
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3 *the company's financial performance appears to be no longer considered in the share*
4 *purchase decision”.*
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7 b. The Second paragraph:

8 *“Investors' optimistic (pessimistic) sentiment towards stock prices seems to dominate its*
9 *influence on the operation of the stock market. The sentiment index built on social media*
10 *has been shown to greatly influence the volatility of stock prices (Liang et al., 2020). The*
11 *optimistic (pessimistic) sentiment of Internet search-based investors is also able to*
12 *influence the premium value in the United States stock market (Teti et al. 2020; Klemola,*
13 *2020). Meanwhile, Ni et al. (2019) revealed that the fluctuation of stock prices is more*
14 *sensitively to the intraday sentiment of individuals. Chau et al. (2016) explain that*
15 *sentiment-induced buying and selling is an important determinant of stock price*
16 *variation. Based on explanations from various previous studies, we believe that investors'*
17 *optimistic (pessimistic) sentiment towards stock price volatility dominates its influence on*
18 *buying or selling decisions, so that the financial performance aspects of listed companies*
19 *are obscured in the stock market”.*
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29 Additional scientific sources:

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31 Yang, B. et al., (2019). Is informational inefficiency priced in stock markets? A
32 comparison between the U.S. and Chinese cases. *Pacific-Basin Finance*
33 *Journal*, 55 (June 2019), 222-238.
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37 Bartram, S. M. and. Grinblatt. (2021). Global market inefficiencies. *Journal of Financial*
38 *Economics*, 139 (1), 234-259.
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41 Al-Yahyaee, K. H. et al., (2020). Why cryptocurrency markets are inefficient: The impact
42 of liquidity and volatility. *The North American Journal of Economics and*
43 *Finance*, 52 (April 2020), 101168.
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47 Liang, C. et al., (2020). Which sentiment index is more informative to forecast stock
48 market volatility? Evidence from China. *International Review of Financial*
49 *Analysis*, 71 (October 2020), 101552.
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52 Teti, E. et al., (2019). The relationship between twitter and stock prices. Evidence from
53 the US technology industry. *Technological Forecasting and Social Change*,
54 149 (December 2019), 119747.
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3 Klemola, A. (2020). Internet search-based investor sentiment and value premium.
4 *Finance Research Letters*, 33 (March 2020), 101224.

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7 Ni, Y. et al., (2019). A novel stock evaluation index based on public opinion analysis.
8 *Procedia Computer Science*, 147 (2019), 581-587.

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11 Chau, F. et al., (2016). Does investor sentiment really matter?. *International Review of*
12 *Financial Analysis*, 48 (December 2016), 221-232.

13 14 15 16 17 **Reviewer 1, the fifth comment**

18 **5. Research implications are missing**

19 **Responses:**

20 We've added an implication section in the text.

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24 a. In **part 6, b. Implications**, the explanation in this part is as follows:

25 *So far, research on intellectual capital (IC) has been discussed in 700 articles written by*
26 *leading authors at various universities (Dubic et al., 2020). However, there is no*
27 *research that discusses IC disclosure on the stock market. This research provides an*
28 *understanding that the stock market is driven by the optimistic (pessimistic) sentiment of*
29 *investors. This fact implies that intellectual capital disclosure, which is proxied by the*
30 *company's financial performance becomes obscured, while Investors prefer to analyze*
31 *the volatility of stock prices as a parameter in buying or selling decisions. In further*
32 *research, it is necessary to modify the measurement of the intellectual property*
33 *associated with knowledge of stock price volatility.*

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40 Additional scientific sources:

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42 Dabić, M. et al., (2020). Two decades of the Journal of Intellectual Capital: a bibliometric
43 overview and an agenda for future research. *Journal of Intellectual Capital*,
44 ahead-of-print.
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49 50 **Reviewer 1, the sixth comment**

51 **6. The paper needs to be language edited and proofre**

52 **Responses:**

53 Done
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Reviewer 2, the first comment

- 1. The paper is original offering a significant perspective in the analysis of relation between Intellectual Capital (IC) and firm performance with a specific focus on stock price crash risk.**

Responses:

Done

Reviewer 2, the second comment

- 2. Literature is well-structured but it is necessary to update the section with more recent papers: in fact, in the last year there have been many relevant studies published on the subject. Below, I propose just a few to integrate into the research framework:**

- F Wen, L Xu, G Ouyang, G Kou, Retail investor attention and stock price crash risk: Evidence from China, *International Review of Financial Analysis*, 2019
- Y Luo, C Zhang, Economic policy uncertainty and stock price crash risk, *Research in International Business and Finance*, 2020
- J Hu, S Li, AG Taboada, F Zhang, Corporate board reforms around the world and stock price crash risk, *Journal of Corporate Finance*, 2020
- X Ma, W Wang, J Wu, W Zhang, Corporate customer concentration and stock price crash risk, *Journal of Banking & Finance*, 2020
- SM Lee, P Jiraporn, H Song, Customer concentration and stock price crash risk, *Journal of Business Research*, 2020

Responses:

We have added an explanation in the section 2. Literature Review and Hypothesis, b.The Determinant of Information Efficiency, Additions to this section are as follows:

- a. The first paragraph

“Internationally, the efficiency of share price information is influenced by investors' understanding of the long-term relationship between stock market volatility and the

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3 *uncertainty of international economic policy (Belcaid and Ghini, 2019). A study in*
4 *France also shows that stock exchanges find it difficult to maintain the efficiency of stock*
5 *information during global macroeconomic events (Boya, 2019). Hu et al. (2020)*
6 *revealed that board reforms reduce crash risk by improving financial transparency and*
7 *enhancing investment efficiency. In Indonesia, sub-optimal financial positions play a role*
8 *in the corporate share repurchases decisions, while the enactment of the regulations has*
9 *a significant effect on firms' undertaking share repurchases programs (Moin et al., 2020).*
10 *In China, regulations that promote the efficiency of share prices also have an important*
11 *role in controlling stock prices (He and Fang 2019). Thus, external factors, namely the*
12 *ability of investors to analyze stock price volatility, macroeconomic events, financial*
13 *transparency, and Government regulations are determinants of information efficiency in*
14 *the stock market”.*
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24 b. The second paragraph

25 *“Luo and Zang (2020) have proven that economic policy uncertainty is significantly and*
26 *positively associated with aggregated stock price crash risk at the market level.*
27 *Meanwhile, Wen et al. (2019) revealed that higher quality auditing can mitigate the*
28 *impact of retail investor attention on firms' future crash risk. Lee et al. (2020) revealed*
29 *that a supplier firm with a concentrated customer base experiences higher crash risk is*
30 *attenuated by lower switching costs and is accentuated when the degree of information*
31 *asymmetry is high. Another study shows that Chinese investor sentiment (CIS) also*
32 *affects stock price volatility (Li, 2019). Likewise Ma et al. (2020) suggests that exposure*
33 *to an undiversified corporate customer base can have a negative bearing on a firm's*
34 *crash risk. The five studies show that economic policy, investor sentiment, and audit*
35 *quality are determinants of the efficiency of information in the stock market”.*
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46 Additional scientific sources:

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48 Yong, J. Y. et al., (2019). Nexus between green intellectual capital and green human
49 resource management. *Journal of Cleaner Production*, 215 (April 2019), 364-
50 374.
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3 Yusoff, Y. M. et al., (2019). Do all elements of green intellectual capital contribute
4 toward business sustainability? Evidence from the Malaysian context using
5 the Partial Least Squares method. *Journal of Cleaner Production*, 234
6 (October 2019), 626-637.
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10 Barrena-Martínez, J. et al., (2020). Joint forces: Towards an integration of intellectual
11 capital theory and the open innovation paradigm. *Journal of Business*
12 *Research*, 112 (May 2020), 261-270.
13
14
15 Salvi, A. et al., (2020). Intellectual capital disclosure in integrated reports: The effect on
16 firm value. *Technological Forecasting and Social Change*, 160 (November
17 2020), 120228.
18
19
20 Mahmood, T. and Mubarik, M. S. (2020). Balancing innovation and exploitation in the
21 fourth industrial revolution: Role of intellectual capital and technology
22 absorptive capacity. *Technological Forecasting and Social Change*, 160
23 (November 2020), 120248.
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26
27 Yusliza, M. Y. et al. (2020). A structural model of the impact of green intellectual capital
28 on sustainable performance. *Journal of Cleaner Production*, 249 (March
29 2020), 119334.
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33 Dubic, M. et al. (2021). Intellectual agility and innovation in micro and small businesses:
34 The mediating role of entrepreneurial leadership. *Journal of Business*
35 *Research*, 123 (February 2021), 683-695.
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38 Hu, j. et al., (2020). Corporate board reforms around the world and stock price crash risk.
39 *Journal of Corporate Finance*, 62(2020), 101557.
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42 Moin, A. et al.,(2020). In search of stock repurchases determinants in listed Indonesian
43 firms during regulatory changes. *Journal of Economic Behavior and*
44 *Organization*, 176 (August 2020), 145-165.
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47 Lee, S. M. et al., (2020). Customer concentration and stock price crash risk. *Journal of*
48 *Business Research*, 110 (2020), 327–346
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51 Wen, F. et al., (2019). Retail investor attention and stock price crash risk: Evidence from
52 China. *International Review of Financial Analysis*, 65 (2019), 101376.
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55 Luo, Y. and Zang, C. (2020). Economic policy uncertainty and stock price crash risk.
56 *Research in International Business and Finance*, 51 (January 2020), 101112.
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3 Ma, X. et al.,(2020). Corporate customer concentration and stock price crash risk. *Journal*
4 *of Banking & Finance*, 119 (October 2020), 105903.
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8 **Reviewer 2, the third comment**
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10 **3. Methodology is coherent with the research design and well-presented in relation to the**
11 **investigated research hypothesis.**

12 **Responses:**
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14 Done
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18 **Reviewer 2, the fourth comment**
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20 **4. The results and their discussion are well presented, but it is necessary that the section**
21 **of the discussion is improved, proposing a reading of the results with respect to the**
22 **hypotheses formulated and the previous evidence of the existing literature.**
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27 **Responses:**
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29 We have deleted the 2nd and 3rd paragraphs, while we also provided an additional explanation to
30 replace the two deleted paragraphs. In **part 5, Discussion**, the explanation in this part is as
31 follows:
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34 a. The first paragraph, line 6-13:

35
36 *“Several studies show that intellectual capital (IC) has an important role in improving*
37 *sustainable company performance and business progress (see e.g. Castillo et al., 2019;*
38 *Lee and Lin, 2019; Oppong and Pattanayak, 2019; Secundo et al., 2020). However, the*
39 *test results in this study prove that IC has no effect on stock crash risk on the Indonesia*
40 *Stock Exchange (IDX). In addition, other results show that the company's performance as*
41 *represented by return on equity (ROE) also has no effect on stock price crash risk. This*
42 *means, IC only plays a role in controlling company performance and does not play a role*
43 *in controlling share prices. We find that information inefficiency results in general*
44 *distrust of stock markets in developing countries (Yang et al., 2019). Information*
45 *inefficiency is a global problem that always exists in the stock market, even though it is*
46 *more present in developing countries than developed countries (Boya, 2019; Bartram and*
47 *Grinblatt, 2021). Meanwhile, Al-Yahyaee et al. (2020) explain that high liquidity that is*
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3 *not balanced with low volatility will weaken information efficiency in the stock market.*
4 *This indicates that the company's financial performance appears to be no longer*
5 *considered in the share purchase decision”.*
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10 b. The Second paragraph:

11 *“Investors' optimistic (pessimistic) sentiment towards stock prices seems to dominate its*
12 *influence on the operation of the stock market. The sentiment index built on social media*
13 *has been shown to greatly influence the volatility of stock prices (Liang et al., 2020). The*
14 *optimistic (pessimistic) sentiment of Internet search-based investors is also able to*
15 *influence the premium value in the United States stock market (Teti et al. 2020; Klemola,*
16 *2020). Meanwhile, Ni et al. (2019) revealed that the fluctuation of stock prices is more*
17 *sensitively to the intraday sentiment of individuals. Chau et al. (2016) explain that*
18 *sentiment-induced buying and selling is an important determinant of stock price*
19 *variation. Based on explanations from various previous studies, we believe that investors'*
20 *optimistic (pessimistic) sentiment towards stock price volatility dominates its influence on*
21 *buying or selling decisions, so that the financial performance aspects of listed companies*
22 *are obscured in the stock market”.*
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34 Additional scientific sources:

35
36 Yang, B. et al., (2019). Is informational inefficiency priced in stock markets? A
37 comparison between the U.S. and Chinese cases. *Pacific-Basin Finance*
38 *Journal*, 55 (June 2019), 222-238.
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41 Bartram, S. M. and. Grinblatt. (2021). Global market inefficiencies. *Journal of Financial*
42 *Economics*, 139 (1), 234-259.
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45 Al-Yahyaee, K. H. et al., (2020). Why cryptocurrency markets are inefficient: The impact
46 of liquidity and volatility. *The North American Journal of Economics and*
47 *Finance*, 52 (April 2020), 101168.
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51 Liang, C. et al., (2020). Which sentiment index is more informative to forecast stock
52 market volatility? Evidence from China. *International Review of Financial*
53 *Analysis*, 71 (October 2020), 101552.
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3 Teti, E. et al., (2019). The relationship between twitter and stock prices. Evidence from
4 the US technology industry. *Technological Forecasting and Social Change*,
5 149 (December 2019), 119747.
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9 Klemola, A. (2020). Internet search-based investor sentiment and value premium.
10 *Finance Research Letters*, 33 (March 2020), 101224.
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13 Ni, Y. et al., (2019). A novel stock evaluation index based on public opinion analysis.
14 *Procedia Computer Science*, 147 (2019), 581-587.
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17 Chau, F. et al., (2016). Does investor sentiment really matter?. *International Review of*
18 *Financial Analysis*, 48 (December 2016), 221-232.
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21 22 **Reviewer 2, the fifth comment**

- 23
24 **5. The results and their discussion are well presented, but it is necessary that the section**
25 **of the discussion is improved, proposing a reading of the results with respect to the**
26 **hypotheses formulated and the previous evidence of the existing literature.**
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31 **Responses:**

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33 1. We have revised the conclusion section
34 a. In **part 6, a. Conclusions, second paragraph**, the explanation in this part is as follows:
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36 *“Simultaneously, the VAHU, STVA, and VACA variables have a significant relationship to*
37 *firm performance but partially the VAHU does not have a significant effect like STVA and*
38 *VACA. Capital employed has the biggest influence on firm performance. The results state*
39 *that the three intellectual capital variables do not have a significant direct or indirect*
40 *relationship with stock price crash risk. This result is in line with several previous studies.*
41 *So far, the optimistic (pessimistic) sentiment of investors regarding the volatility of share*
42 *prices has obscured aspects of the financial performance of listed companies. Finally, we*
43 *conclude that investor sentiment has dominated its influence on stock price crash risk, so*
44 *that the IC aspect has become obscured”.*
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53 2. We've added an implication section in the text.
54 a. In **part 6, b. Implications**, the explanation in this part is as follows:
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“So far, research on intellectual capital (IC) has been discussed in 700 articles written by leading authors at various universities (Dubic et al., 2020). However, there is no research that discusses IC disclosure on the stock market. This research provides an understanding that the stock market is driven by the optimistic (pessimistic) sentiment of investors. This fact implies that intellectual capital disclosure, which is proxied by the company's financial performance becomes obscured, while Investors prefer to analyze the volatility of stock prices as a parameter in buying or selling decisions. In further research, it is necessary to modify the measurement of the intellectual property associated with knowledge of stock price volatility”.

Additional scientific sources:

Dabić, M. et al., (2020). Two decades of the Journal of Intellectual Capital: a bibliometric overview and an agenda for future research. *Journal of Intellectual Capital*, ahead-of-print.

Revised manuscript:

Does Intellectual Capital Have Any Influence On Stock Price Crash Risk?

ABSTRACT

Purpose

This paper aims to explore the influence between intellectual capital and the risk of stock price crashes by using company performance as an intervening variable.

Design / methodology / approach

This study empirically analyzes the impact of efficiency of intellectual capital on stock price crash risk using 152 sample of companies listed on Indonesia Stock Exchange (IDX) in the period of 2018. To test the research hypotheses, regression analysis and path analysis are applied. In addition, the researchers added exploration to several studies to strengthen the results of this study.

Findings

~~The results show that intellectual capital positively effects on firm performance but does not give any effect on stock price crash risk. The findings show that enhancing intellectual capital is an important thing to do to improve firm performance but having good performance does not mean can reduce stock price crash risk in the future. More detailed explanation can be seen in the discussion section. Our findings indicate that investors' optimistic (pessimistic) sentiment regarding stock price volatility has obscured aspects of the financial performance of listed companies. This finding implies that investor sentiment has dominated its influence on stock price crash risk, so that the aspects of intellectual capital are obscured.~~

Originality / value

~~This research provides new information that intellectual capital disclosure in the stock market needs to involve a knowledge of the volatility of stock prices in order to reveal stock price crash risk. This empirical paper deepens the understanding that the output of intellectual capital in business is an increase in company performance, but efficient disclosure of information about performance improvements is also needed in order to minimize negative sentiment from investors. Thus, the ultimate goal of intellectual capital is the efficiency of the company's performance information on the stock market.~~

Key word: Intellectual capital, stock price crash risk, firm performance, disclosure, investor sentiment, volatility

1. Introduction

Companies in modern era nowadays are being replaced with a knowledge-based, fast-changing and technologically intensive economy, including in Indonesia. Most of companies use technology to enhance the efficiency on companies activity and depress expense incurred. In this modern economy, for many firms, the most important asset must be had for each company is intellectual capital. It has been different from previous era that physical capital was the power of the companies. Previous studies have shown that company value and capability are often based on the intangible intellectual capital (IC) that it possesses (Berzkalne and Zelgalve, 2014; Huang and Huang, 2020). Liu and Jiang (2020) have also proven that IC has a positive impact on business progress such as increasing brand equity and social networking. In addition, IC also provides various positive benefits for companies such as employees' job satisfaction and retention (Longo and Mura, 2011), increasing business innovation (Ornek and Ayas, 2015; Adesina, 2019), increasing the relevance of accounting information (Hayati et al., 2015), and cost efficiency (Martinez et al., 2020). In this study, we would intuitively expect that the application of intellectual capital in the company is able to reduce risk on stock price crashes.

The purpose of this study is to find out relationship between efficiency of intellectual capital and stock price crash risk in the future by using firm performance as mediating variable. Clarke et al. (2011) stated that Intellectual capital (IC) has a positive influence on firm performance which is characterized by three components of IC efficiency, such as: HCE (Human Capital Efficiency), SCE (Structural capital Efficiency), and CEE (Capital Employed Efficiency). It could be a good signal for companies's shareholder, because a company with good efficiency on IC means that they have been using the resource for its best. Several studies have proven that IC reflects good competence, skills and knowledge that can improve financial performance and increase stock returns (Lentjushenkova and Lapina, 2014; Zhou and Pan, 2018). Thus, IC represents good competency, skills and knowledge so that the company is able to disclose information in accordance with the needs of shareholders.

Based on a Taiwanese study by Chen et al. (2005) this study uses the quantitative measure, value added intellectual coefficient (VAIC) developed by Pulic (1998) as a measure of IC efficiency. Data is collected for Indonesia Stock Exchange (IDX) listed firms in 2018. We analyze using path analysis for knowing whether there are any relation between intellectual capital, firm performance, and stock price crash risk. Prior VAIC studies have investigated the

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3 direct relationship between IC and performance, but there is no investigate about relationship
4 between IC and Stock Price Crash Risk. Finally, this study contributes to the literature on the
5 relation between Intellectual Capital and stock price crashes.
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8 This paper proceeds as follows. Section 2 reviews the relevant literature and develops our
9 hypotheses. Section 3 describes the data and research design. Section 4 presents the main
10 empirical results. Section 5 discussions. Section 6 concludes the paper.
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13 2. Literature Review and Hypothesis

14 a. Strengths and Weaknesses of Measuring Intellectual Capital

15 Basically, intellectual capital (IC) is measured by various elements such as human
16 capital, physical capital, structural capital, social capital, and relational capital. However,
17 several previous studies have shown that there are several drawbacks to IC measurement.
18 Adesina (2019) has measured IC with three components, namely human capital, physical
19 capital and structural capital, however only human capital is positively related to all the
20 three efficiency (technical, allocative, and cost). Castillo et al. (2019) proved that
21 capabilities of human resources are relevant for these organizations, as well as the internal
22 processes, and the relationships with customers. On the issue of environmental protection,
23 Yong et al. (2019) revealed that green human capital and green relational capital were
24 influenced by green human resource management, but green structural capital was not
25 significantly related to green human resource management. Yusoff et al. (2019) also
26 revealed that green human capital does not have a positive relationship with business
27 sustainability.
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39 Although there are various weaknesses of intellectual capital (IC), its advantages have
40 been demonstrated in several previous studies. Barrena-Martínez et al. (2020) proved that
41 the three components of IC (relational capital, human capital, and structural capital)
42 positively affect open innovation (OI) performance. Salvi et al. (2020) suggested a
43 significantly positive relationship between all three components of IC (structural, human,
44 social and relationship) and firm value, generating multiple implications for reporting
45 entities, investors, regulators, and managers. Mahmood and Mubarik (2020) showed that
46 specific policies aimed at developing IC of a firm, which in turn can enable a firm to
47 maintain a balance between innovation and market exploitation activities. Yusliza et al.
48 (2020) revealed that the contribution of green intellectual capital as an intangible resource
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3 for organizations in achieving sustainable performance and a competitive advantage for
4 future researchers. Dubic et al. (2021) revealed that the intellectual agility of employees
5 positively influences the innovativeness of micro and small businesses, but this effect is
6 strongly mediated through entrepreneurial leadership. It means that human capital has an
7 important role in business innovation. This study will explore the efficiency of intellectual
8 capital using three measures (Human capital, Structural capital and Capital employed).
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10 **b. The determinant of Information Efficiency**

11 Internationally, the efficiency of share price information is influenced by investors'
12 understanding of the long-term relationship between stock market volatility and the
13 uncertainty of international economic policy (Belcaid and Ghini, 2019). A study in France
14 also shows that stock exchanges find it difficult to maintain the efficiency of stock
15 information during global macroeconomic events (Boya, 2019). Hu et al. (2020) revealed
16 that board reforms reduce crash risk by improving financial transparency and enhancing
17 investment efficiency. In Indonesia, sub-optimal financial positions play a role in the
18 corporate share repurchases decisions, while the enactment of the regulations has a
19 significant effect on firms' undertaking share repurchases programs (Moin et al., 2020). In
20 China, regulations that promote the efficiency of share prices also have an important role in
21 controlling stock prices (He and Fang 2019). Thus, external factors, namely the ability of
22 investors to analyze stock price volatility, macroeconomic events, financial transparency, and
23 Government regulations play a greater role in controlling the risk of stock price crashes,
24 while IC does not have an important role in controlling stock prices.
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26 . Luo and Zang (2020) have proven that economic policy uncertainty is significantly and
27 positively associated with aggregated stock price crash risk at the market level. Meanwhile,
28 Wen et al. (2019) revealed that higher quality auditing can mitigate the impact of retail
29 investor attention on firms' future crash risk. Lee et al. (2020) revealed that a supplier firm
30 with a concentrated customer base experiences higher crash risk is attenuated by lower
31 switching costs and is accentuated when the degree of information asymmetry is high.
32 Another study shows that Chinese investor sentiment (CIS) also affects stock price volatility
33 (Li, 2019). Likewise Ma et al. (2020) suggests that exposure to an undiversified corporate
34 customer base can have a negative bearing on a firm's crash risk. The fifth studies indicate
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that economic policy, investor sentiment, and audit quality have a significant effect on the risk of stock price crashes.

a.c. Intellectual Capital Efficiency (ICE)

Intellectual Capital (IC) represents a company's intangible knowledge assets in the form of information and knowledge resources (Kitts et al., 2001). Several studies have revealed that Intellectual Capital efficiency (ICE) can improve the performance of companies (see e.g. Clarke et al., 2011; Gogan et al., 2016; Asiaei and Jusoh, 2017; Mustapha and Abdelheq, 2018; McDowell, 2018; Sardo et al., 2018; Huang and Huang, 2020). Investors are very interested in buying shares when the company has implemented ICE. As Lin et al. (2015); Ozkan et al. (2017) shows that the greater of ICE, the more it reduces stock price crashes.

Jerzak (2015) shows that human capital constitutes inborn skills and acquired skills, which if invested efficiently in can be strengthen the company's position and gains a competitive advantage. It means, the efficiency of human capital (HCE) represents the selection of superior intellectual capital (IC) to be employed in the company's business. Meanwhile, Asiaei et al. (2018) has proven that there was a significant positive relationship between HCE levels and the use of a balanced performance measurement system. Dženopoljac et al. (2016) also revealed that HCE has a direct positive impact on the financial performance of companies. Therefore, Companies that have a higher HCE are more likely to have a higher ROE, a higher ROA, a higher ROIC and tend to be more profitable.

In general, various strategies have been carried out by many companies to regulate structural capital in order to optimize overall business performance. Intellectual capital (IC) has a central role in determining the structural capital model used in companies. Gogan et al. (2015) revealed that determining the right model in structural capital needs to be done in order to obtain competitive advantages in the market. This study indicates that IC plays an important role in determining efficient structural capital so that the organization's desire to be competitive in the market can be achieved. In addition, Ciprian et al. (2012) explained that IC is not sufficient to determine the accuracy of structural capital sizes, it is necessary to

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3 complement positions on intangible assets that can help to determine company policies and
4 decisions.
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6 Andersson et al. (2006) revealed that shareholder demand is a higher return on capital
7 Employed (ROCE). It means, capital employed efficiency (CEE) represents intellectual
8 capital (IC) which is able to perform accurate calculations in capital investment in order to
9 obtain optimal returns. As Mørch et al. (2017) have explained that CEE plays an important
10 role in making investment decisions because accurate calculations are needed regarding the
11 fitness of operations and financial performance of investments. Thus, Intellectual Capital
12 efficiency (ICE) has an important role in investment decisions.
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18 **b.d. _____ Intellectual Capital Efficiency (ICE) Measurement Model on Stock Price** 19 **Risk** 20

21 Basically, the efficiency of intellectual capital (ICE) plays a role in the application of
22 HCE (Human Capital Efficiency), SCE (Structural capital Efficiency), and CEE (Capital
23 Employed Efficiency). This study will examine the effect of ICE on stock price risk. In the
24 testing process, we combine the measurement model of the performance of intellectual
25 potential in knowledge economy developed by (Pulic, 1998) and the calculation of the
26 negative coefficient of firm-specific daily returns (NCSKEW) developed by (Chen et al.,
27 2017). ICE is calculated using three components, namely value added human capital
28 efficiency (VAHU), value added structural capital (STVA), and value added capital
29 employed (VACA). Meanwhile, stock price risk is calculated using NCSKEW. More
30 detailed calculations are explained in the method section.
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39 Several studies have used this model which shows mixed results as well. Hejazi et al.
40 (2016) found that increasing intellectual capital (IC) should increase firm value. Meanwhile,
41 Kamukama and Sulait (2017) showed a positive and significant relationship between human
42 capital, relational capital, structural capital on competitive advantage. Another study shows
43 that the three sub-constructions of IC together have a positive and substantive relationship
44 with business performance (Huang and Liu, 2005; Sharabati et al., 2010). The three studies
45 indicate that Innovation and creation play a dominant role in describing the latent constructs
46 of IC. Based on discussion above, hypothesis (H1) is given
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52 H1a : Human capital efficiency is positively related to firm performance
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54 H1b : Structural capital efficiency is positively related to firm performance
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3 H1c : Capital employed efficiency is positively related to firm performance
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5 Chen et al. (2005) have confirmed that investors place higher value on companies with
6 better intellectual capital efficiency. Furthermore, Song (2015) has shown that management
7 tends to hide some negative information and suddenly release negative information in the
8 future if the company has a higher level of accounting disclosure of intellectual capital.
9 Dong and Zhang (2016) have also shown that environmental control, information and
10 communication, and monitoring components significantly reduce the risk of accidents while
11 risk assessment and control activity components do not show any relation to the risk of a
12 stock price crash. Ben-Nasr and Ghouma (2018) explained that employee welfare also
13 factors that contribute to the risk of stock price crashes. Further analysis shows a strong
14 corporate governance mechanism can reduce the risk of rising stock price crashes in less
15 unionized companies and there is a negative impact of union strength on the risk of stock
16 price crashes (Liao and Ouyang, 2017). Meanwhile, Anifowose et al. (2017) showed a
17 positive relationship between the intellectual capital as a whole and the market capitalization
18 value of the company. Some of these studies imply that IC can reduce the risk of stock
19 investment. Based on discussion above, hypothesis (H2) is given.
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31 H2a : Human capital efficiency is negatively related to stock price crash risk

32 H2b : Structural capital efficiency is negatively related to stock price crash risk

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34 H2c : Capital employed efficiency is negatively related to stock price crash risk
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38 Bennett et al. (2020) has explained that management, directly or indirectly, learns from
39 its firm's stock price, so that more informative stock prices should make the firm more
40 productive. It means, informativeness of stock prices indicates that the company's
41 performance is better. As Martani et al. (2009) mentioned in their research that the
42 company's financial performance is shown by the profitability ratio and the market value
43 ratio significantly influences returns in the company. Based on this research, the following
44 hypothesis (H3) can be formulated as
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50 H3 : firm performance is negatively related to stock price crash risk
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53 Intellectual capital (IC) owned by the company is expected to create added value so that
54 it can improve company performance. Good firm performance is one of the signals that will
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3 be considered by investors in making investment decisions. Cenciarelli et al. (2018) in her
4 research showed that bankruptcy prediction models that include IC have superior predictive
5 capabilities over standard models. Meanwhile, stock price crashes are very likely to occur if
6 the organization's internal controls are ineffective. The effectiveness of internal control
7 depends on research and development (RandD) conducted by the company. Zhou and Pan
8 (2018) explained that companies that will develop Intellectual capital require capital for
9 RandD so they are faced with financing constraints. It means, IC efficiency supports the
10 effectiveness of internal control. In addition, the level of social trust also plays a role in the
11 risk of stock price crashes. According to Cao et al. (2016), social trust, as a socioeconomic
12 factor, is negatively correlated with accident risk. There is a fact that companies in areas of
13 high social trust tend to hide bad news. Management tends to disclose more related
14 information to get investor. Thus, intellectual capital efficiency is needed as a corporate
15 strategy to increase information transparency and financial performance which will manifest
16 towards increasing investor confidence. Based on discussion above, we can hypothesize
17 (H4) that
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19 H4a: Human capital efficiency is negatively related to stock price crash risk by using
20 firm performance as intervening variable
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22 H4b: Structural capital efficiency is negatively related to stock price crash risk by using
23 firm performance as intervening variable
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25 H4c: Capital employed efficiency is negatively related to stock price crash risk by using
26 firm performance as intervening variable
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29 **3. Research Design**

30 **a. Sample**

31 This study uses companies from various sectors as research objects as the sample for the
32 research. The sample collected from Indonesia Stock Exchange (IDX) annual report data in
33 2018. We also obtain weekly stock data from Yahoo Finance. We then use the following
34 selection criteria: First, similar to Khan and Watts (2009), we require that total assets and
35 book, values of equity for each firm be greater than zero. Second, to be included in the
36 sample, a firm must have at least 20 weekly returns for each fiscal year. We also excluded
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incomplete company data and financial information. Finally, we obtained samples from 152 companies to apply to the study.

b. Measurement of Independent variables

Chen et al. (2005) argue that value added intellectual coefficient (VAIC) and its three components, HCE (Human Capital Efficiency), SCE (Structural capital Efficiency), and CEE (Capital Employed Efficiency) represent the independent variables. In order to calculate VAIC, we have to know the amount of HCE, SCE, and CEE. It can be expressed in Formula 1.

$$VAIC = HCE + SCE + CEE \dots\dots\dots Formula 1$$

To measure VAIC we need value added to be calculated. In its simplest form VA is the difference between output and input. Output represents net sales revenues and input contains all the expenses incurred in earning the sales revenues except labor costs which are considered to be a value creating entity (Tan et al., 2008). This VA is also defined as the net value created by firms during the year (Chen et al., 2005), VA could be calculated using Formula 2.

$$VA = S - B = NI + T + DP + I + W \dots\dots\dots Formula 2$$

Notes : S is sales; B is Cost of Goods Sold; NI is net income after tax; T is taxes; DP is depreciation; I is interest expense; and W is wages and salaries for employee.

i. Human Capital Efficiency (HCE)

Human capital (HC) factors consist of skills, knowledge, productivity, competence, and all the things that fit with employee in the work place. Human capital efficiency (HCE) can be calculated using a calculation developed by Pulic (1998), where HCE is calculated using the formula value added human capital efficiency (VAHU). VAHU calculations can be seen in Formula 3.

$$VAHU = VA/HC \dots\dots\dots Formula 3$$

ii. Structural Capital Efficiency (SCE)

Structural Capital (SC) is one of elements in intellectual capital, it consists of organizational networks, patents, strategy, and brand names. Based on Pulic (1998), we calculated SC as in Formula 4. Meanwhile, structural capital efficiency (SCE) is calculated using value added structural capital (STVA) as in Formula 5.

$$SC = VA - HC \text{Formula 4}$$

$$STVA = SC / VA \text{Formula 5}$$

Structural capital efficiency (SCE) is the dollar of SC within the firm, for every dollar of value added, and as HCE increases, SCE increases. If the efficiency measures for both HCE and SCE were calculated with VA as the numerator, the logical inconsistency would remain (Pulic, 1998).

iii. *Capital Employed Efficiency (CEE)*

Capital Employed Efficiency (CEE) is the efficiency that SCE and HCE fail to capture. Pulic (1998) argues that IC cannot create value on its own, and so it must be combined with capital (physical and financial) employed (CE). CEE shows how much VA is created by a dollar spent on capital employed (CE). We could calculate CE as the total assets minus intangible assets and CEE is defined as value added capital employed (VACA). VACA calculations can be seen in Formula 6.

$$VACA = VA / CE \text{Formula 6}$$

c. Measurement of Dependent variable

The risk of stock price crash is the risk of a stock price decline in a significant range after the price had soared (Kim and Zhang, 2016). This variable was developed using a model developed by Chen et al. (2017) which can be seen in Formula 7.

$$NCSKEW = \frac{-[n(n-1)3/2 \sum_{T=1}^n (w_{i,T,t} - \bar{w}_{i,t})^3]}{[(n-1)(n-2)(\sum_{T=1}^n (w_{i,T,t} - \bar{w}_{i,t})^2)^{3/2}]} \text{ Formula 7}$$

Notes: $W_{i,T,t}$ is the company's weekly specific stock returns for T weeks in year t, \bar{w}_i , t is the average weekly return of the company's specific stock for year t and n is the number of weeks for year t. The larger NCSKEW represents a greater negative slope rate of return, which means a greater risk of stock price crashes that can occur.

d. Measurement of Intervening variable

This paper uses firm performance as intervening variable. We use ROE to analyze the firm performance. We calculate this ratio with formula 8.

$$ROE = \frac{\text{Earning after tax}}{\text{Equity}} \dots\dots\dots \text{Formula 8}$$

e. Empirical Models

This study uses path analysis that produce two model regression to test our hypotheses.

Model I

$$ROE = \alpha + \beta_1 VAHU + \beta_2 STVA + \beta_3 VACA + \beta_4 SIZE - \mu$$

Model II

$$NCSKEW = \alpha - \beta_1 STVA - \beta_2 VACA - \beta_3 AHU + \beta_4 SIZE - \beta_5 ROE - \mu$$

Notes: ROE is ratio for measuring firm performance, NCSKEW is the negative coefficient of firm-specific daily returns as a proxy of stock price crash risk, VAHU is value added human capital, STVA is structural capital value added, VACA is value added capital employed, and SIZE is firm size as control variable in this study.

4. Results

a. Normality Test

Table 1 show that the significance value of Asymp. The Sig (2-tailed) is 0.200. The value is greater than 0.1. Then according to the basis of decision making in the Kolmogorov-Smirnov normality test above, the result can be concluded that the data is normally distributed so that the assumptions or statements of normality in the regression model have been fulfilled for data above.

Table1. Normal Probability Test Result

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		152
Normal Parameters ^{a,b}	Mean	0.000
	Std. Deviation	0.924
	Absolute	0.059
Most Extreme Differences	Positive	0.037
	Negative	-0.059
Test Statistic		0.059
Asymp. Sig. (2-tailed)		0.200 ^{c,d}

Notes:

- a. Test distribution is Normal.
- b. Calculated from data.
- c. Lilliefors Significance Correction.
- d. This is a lower bound of the true significance.

b. Multicollinearity Test

The basis for decision making from the multicollinearity test is done by looking at the value of Tolerance and VIF. Based on the output table, it is known that the tolerance value of each variable is greater than 0.1. While for the VIF value for each variable is less than 10. Then according to the basis for multicollinearity test decision making, we can conclude that there are no symptoms of multicollinearity in the regression model. Table 2 shows the results of the multicollinearity test.

Table 2. Multicollinearity Test Results

Model 1	Unstandardized		Standardized	t	Sig.	Collinearity	
	Coefficients		Coefficients			Tolerance	VIF
	B	Std. Error	Beta				
(Constant)	-4.074	1.323		-3.079	0.002		
VAHU	-0.062	0.096	-0.103	-0.640	0.523	0.247	4.052
STVA	0.144	0.952	0.025	0.151	0.880	0.236	4.231
VACA	0.958	0.891	0.117	1.076	0.284	0.538	1.860
SIZE	0.123	0.043	0.248	2.857	0.005	0.847	1.181
ROE	-0.271	1.481	-0.021	-0.183	0.855	0.475	2.104

Note: Dependent Variable (NCSKEW)

c. Heteroskedasticity Test

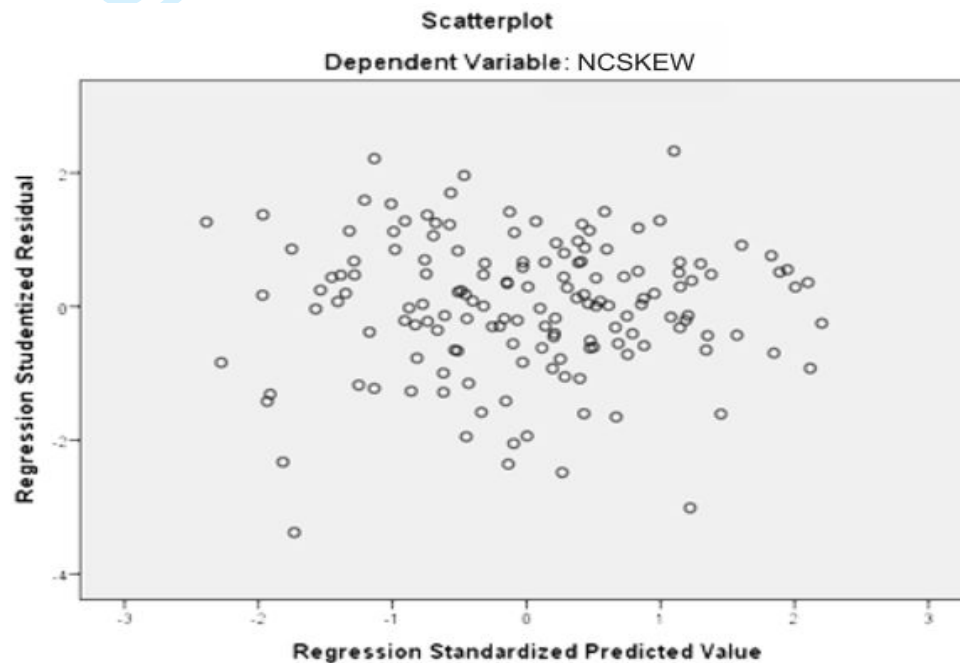
Based on Figure 1, we know that data dots spread above and below or around the number of 0. Then we can see that dots are not clustered just on above or below. The distribution of data points does not form a wavy pattern widened then narrowed and widened again. We also can see that the dots do not make any certain pattern. According from the analyses, we can conclude that there is no heteroscedasticity problem so that a good and ideal regression model can be fulfilled.

d. Path Analysis

In the Table 3, Model 1 shows that the STVA and VACA coefficients have a significant positive effect on ROE at a significance level of 1% with a significance value of 0.015 and 0,000, respectively. While based on the table given that there is no significant relationship between VAHU and ROE at the 1% significance level, so we can conclude that H1(a) is rejected. Based on a beta test, VACA is variable that have the most influences changes in

ROE. The value of Sig. F-statistics show that at a significance level of 1%, VAHU, VACA, and STVA simultaneously influence on ROE. This result is a strong indicator that there is a relationship between intellectual capital and firm performance, thus supporting H1(b) and H1(c). That is, if a firm is able to use its IC more efficiently in one year, this can lead to a performance increase in the same year.

Figure 1. Heteroskedasticity Test Result



In the Table 3, Model 2 shows that all of the components of intellectual capital do not have any significance relationship with stock price crash risk at 1% significance level. From table above we also know that ROE does not have any significance influence on stock price crash risk. Furthermore, we use model 1 and model 2 to do analysis path. After getting the numbers from the table, we calculate the indirect effect by multiplying the effect of the IC component with ROE and ROE with stock price crash risk. Based on the table and path analysis calculation, VAHU has a direct effect on stock price crash risk of 0.103 while the indirect effect of VAHU on stock price crash risk through ROE is 0,000399. STVA has a direct effect on the risk of a stock price crash of 0.025 while STVA has an indirect effect on the risk of a stock price crash of 0.005922. Furthermore, the VACA component has a direct effect of 0.117 and an indirect effect of 0.01264 on the risk of stock price crashes. According to the principle of path analysis that if the indirect effect is greater than the direct

effect then it means there is a significant relationship in the indirect relationship between variables. We can conclude from the data that VAHU, STVA, and VACA do not have any significant relationship to stock price crash risk either directly or indirectly through firm performance.

Table 3. The Results of Regression Model

	Dependent Variable: ROE		Dependent Variable: NCSKEW	
	Predicted Sign	Model 1	Predicted Sign	Model 2
VAHU	+	0.001 (0.005)	-	-0.062 (0.096)
STVA	+	0.128** (0.052)	-	0.144 (0.952)
VACA	+	0.404* (0.037)	-	0.958 (0.891)
SIZE (Control)	+	0.010* (0.002)	-	0.123 (0.043)
ROE (Intervening)			-	-0.271 (1.481)
Constant		-0.340 (0.068)		-4.074 (1.323)
R-square (R ²)		0.525		0.066
Sig. F Stat		0.000*		0.074***
N		152		152

Note: This table presents the correlation coefficient number (β), while the number between parentheses is the standard error. The *, **, and *** signs indicate significance at the levels of 1%, 5%, and 10%.

5. Discussion

Several studies show that intellectual capital (IC) has an important role in improving sustainable company performance and business progress (see e.g. Castillo et al., 2019; Lee and Lin, 2019; Oppong and Pattanayak, 2019; Secundo et al., 2020). However, the test results in this study prove that IC has no effect on stock crash risk on the Indonesia Stock Exchange (IDX). In addition, other results show that the company's performance as represented by return on equity (ROE) also has no effect on stock price crash risk. ~~This means, IC only plays a role in controlling company performance and does not play a role in controlling share prices. We find that~~

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3 information inefficiency results in general distrust of stock markets in developing countries
4 (Yang et al., 2019). Information inefficiency is a global problem that always exists in the stock
5 market, even though it is more present in developing countries than developed countries (Boya,
6 2019; Bartram and Grinblatt, 2021). Meanwhile, Al-Yahyaee et al. (2020) explain that high
7 liquidity that is not balanced with low volatility will weaken information efficiency in the stock
8 market. This indicates that the company's financial performance appears to be no longer
9 considered in the share purchase decision.

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15 Investors' optimistic (pessimistic) sentiment towards stock prices seems to dominate its
16 influence on the operation of the stock market. The sentiment index built on social media has
17 been shown to greatly influence the volatility of stock prices (Liang et al., 2020). The optimistic
18 (pessimistic) sentiment of Internet search-based investors is also able to influence the premium
19 value in the United States stock market (Teti et al. 2020; Klemola, 2020). Meanwhile, Ni et al.
20 (2019) revealed that the fluctuation of stock prices is more sensitively to the intraday sentiment
21 of individuals. Chau et al. (2016) explain that sentiment-induced buying and selling is an
22 important determinant of stock price variation. Based on explanations from various previous
23 studies, we believe that investors' optimistic (pessimistic) sentiment towards stock price
24 volatility dominates its influence on buying or selling decisions, so that the financial
25 performance aspects of listed companies are obscured in the stock market.

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36 Internationally, the efficiency of share price information is influenced by investors'
37 understanding of the long-term relationship between stock market volatility and the uncertainty
38 of international economic policy (Belcaid and Ghini, 2019). In addition, a study in France also
39 shows that stock exchanges find it difficult to maintain the efficiency of stock information during
40 global macroeconomic events (Boya, 2019). Thus, external factors, namely the ability of
41 investors to analyze stock price volatility and macroeconomic events, play a greater role in
42 controlling the risk of falling share prices, while IC does not have an important role in
43 controlling stock prices.

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50 Studies in China show that regulations that promote the efficiency of share prices also have
51 an important role in controlling stock prices (He and Fang 2019). and Another study shows that
52 Chinese investor sentiment (CIS) also affects stock price volatility (Li, 2019). These two studies
53 imply that companies have more interest in stock investment so that anomalies of information
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3 have the potential to be carried out by companies in order to increase company capital. This
4 resulted in negative sentiment by investors towards the company. Thus, investor sentiment and
5 government regulations that encourage an efficient market on the stock exchange also play a role
6 in stock price volatility. In our opinion, intellectual capital (IC) does not play a role in controlling
7 the risk of falling share prices, while external factors such as macroeconomic events, investor
8 sentiment, and regulations that promote efficient markets have a strong influence on the risk of
9 falling share prices.
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17 6. Conclusions and Implications

18 a. Conclusions

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20 This study examines the effect of intellectual capital components on stock price crash
21 risk by using firm performance as an intervening variable. This research is a quantitative
22 study using secondary data on annual reports published by the IDX (Indonesia Stock
23 Exchange) and stock price data published by Yahoo Finance. Intellectual capital variables
24 are measured by the Value added Intellectual capital (VAIC) method written by Pulic (1998)
25 and stock price crash risk variables are measured by NCSKEW developed by Chen et al.
26 (2017). Data is processed using the path analysis method to determine the direct effect and
27 indirectly from each of the interrelated variables.
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34 Simultaneously, the VAHU, STVA, and VACA variables have a significant relationship
35 to firm performance but partially the VAHU does not have a significant effect like STVA
36 and VACA. Capital employed has the biggest influence on firm performance. The
37 results findings state that the three intellectual capital variables do not have a significant
38 direct or indirect relationship with stock price crash risk. This result is in line with several
39 previous studies. So far, the optimistic (pessimistic) sentiment of investors regarding the
40 volatility of share prices has obscured aspects of the financial performance of listed
41 companies. Finally, we conclude that investor sentiment has dominated its influence on
42 stock price crash risk, so that the IC aspect has become obscured. The findings show that
43 enhancing intellectual capital is an important thing to do to improve firm performance but
44 having good performance does not mean can reduce stock price crash risk in the future.
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53 Based on the discussion section, it shows that intellectual capital (IC) does not play a
54 role in controlling of stock price crash risk. Meanwhile, the results of previous research
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explorations indicate that the occurrence of macroeconomic events, investor sentiment and regulations that promote efficient markets are determining factor for stock price volatility which is connected to the stock price crash risk. In the end, we concluded that enhancing intellectual capital is an important thing to do to improve firm performance but having good performance does not mean can reduce stock price crash risk in the future.

b. Implications

So far, research on intellectual capital (IC) has been discussed in 700 articles written by leading authors at various universities (Dubic et al., 2020). However, there is no research that discusses IC disclosure on the stock market. This research provides an understanding that the stock market is driven by the optimistic (pessimistic) sentiment of investors. This fact implies that intellectual capital disclosure, which is proxied by the company's financial performance becomes obscured, while Investors prefer to analyze the volatility of stock prices as a parameter in buying or selling decisions. In further research, it is necessary to modify the measurement of the intellectual property associated with knowledge of stock price volatility.

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Manuscript Before Revision:

Does Intellectual Capital Have Any Influence On Stock Price Crash Risk?

ABSTRACT

Purpose

This paper aims to explore the influence between intellectual capital and the risk of stock price crashes by using company performance as an intervening variable.

Design / methodology / approach

This study empirically analyzes the impact of efficiency of intellectual capital on stock price crash risk using 152 sample of companies listed on Indonesia Stock Exchange (IDX) in the period of 2018. To test the research hypotheses, regression analysis and path analysis are applied.

Findings

The results show that intellectual capital positively effects on firm performance but does not give any effect on stock price crash risk. The findings show that enhancing intellectual capital is an important thing to do to improve firm performance but having good performance does not mean can reduce stock price crash risk in the future. More detailed explanation can be seen in the discussion section

Originality / value

This empirical paper deepens the understanding that the output of intellectual capital in business is an increase in company performance, but efficient disclosure of information about performance improvements is also needed in order to minimize negative sentiment from investors. Thus, the ultimate goal of intellectual capital is the efficiency of the company's performance information on the stock market.

Key word: Intellectual capital, stock price crash risk, firm performance

1. Introduction

Companies in modern era nowadays are being replaced with a knowledge-based, fast-changing and technologically intensive economy, including in Indonesia. Most of companies use technology to enhance the efficiency on companies activity and depress expense incurred. In this modern economy, for many firms, the most important asset must be had for each company is

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3 intellectual capital. It has been different from previous era that physical capital was the power of
4 the companies. Previous studies have shown that company value and capability are often based
5 on the intangible intellectual capital (IC) that it possesses (Berzkalne and Zelgalve, 2014; Huang
6 and Huang, 2020). Liu and Jiang (2020) have also proven that IC has a positive impact on
7 business progress such as increasing brand equity and social networking. In addition, IC also
8 provides various positive benefits for companies such as employees' job satisfaction and
9 retention (Longo and Mura, 2011), increasing business innovation (Ornek and Ayas, 2015;
10 Adesina, 2019), increasing the relevance of accounting information (Hayati et al., 2015), and
11 cost efficiency (Martinez et al., 2020). In this study, we would intuitively expect that the
12 application of intellectual capital in the company is able to reduce risk on stock price crashes.
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20 The purpose of this study is to find out relationship between efficiency of intellectual capital
21 and stock price crash risk in the future by using firm performance as mediating variable. Clarke
22 et al. (2011) stated that Intellectual capital (IC) has a positive influence on firm performance
23 which is characterized by three components of IC efficiency, such as: HCE (Human Capital
24 Efficiency), SCE (Structural capital Efficiency), and CEE (Capital Employed Efficiency). It
25 could be a good signal for companies's shareholder, because a company with good efficiency on
26 IC means that they have been using the resource for its best. Several studies have proven that IC
27 reflects good competence, skills and knowledge that can improve financial performance and
28 increase stock returns (Lentjushenkova and Lapina, 2014; Zhou and Pan, 2018). Thus, IC
29 represents good competency, skills and knowledge so that the company is able to disclose
30 information in accordance with the needs of shareholders.
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39 Based on a Taiwanese study by Chen et al. (2005) this study uses the quantitative measure,
40 value added intellectual coefficient (VAIC) developed by Pulic (1998) as a measure of IC
41 efficiency. Data is collected for Indonesia Stock Exchange (IDX) listed firms in 2018. We
42 analyze using path analysis for knowing whether there are any relation between intellectual
43 capital, firm performance, and stock price crash risk. Prior VAIC studies have investigated the
44 direct relationship between IC and performance, but there is no investigate about relationship
45 between IC and Stock Price Crash Risk. Finally, this study contributes to the literature on the
46 relation between Intellectual Capital and stock price crashes.
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3 This paper proceeds as follows. Section 2 reviews the relevant literature and develops our
4 hypotheses. Section 3 describes the data and research design. Section 4 presents the main
5 empirical results. Section 5 discussions. Section 6 concludes the paper.
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8 **2. Literature Review and Hypothesis**

9 **a. Intellectual Capital Efficiency (ICE)**

10 Intellectual Capital (IC) represents a company's intangible knowledge assets in the form
11 of information and knowledge resources (Kitts et al., 2001). Several studies have revealed
12 that Intellectual Capital efficiency (ICE) can improve the performance of companies (see
13 e.g. Clarke et al., 2011; Gogan et al., 2016; Asiaei and Jusoh, 2017; Mustapha and
14 Abdelheq, 2018; McDowell, 2018; Sardo et al., 2018; Huang and Huang, 2020). Investors
15 are very interested in buying shares when the company has implemented ICE. As Lin et al.
16 (2015); Ozkan et al. (2017) shows that the greater of ICE, the more it reduces stock price
17 crashes.
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20 Jerzak (2015) shows that human capital constitutes inborn skills and acquired skills,
21 which if invested efficiently in can be strengthen the company's position and gains a
22 competitive advantage. It means, the efficiency of human capital (HCE) represents the
23 selection of superior intellectual capital (IC) to be employed in the company's business.
24 Meanwhile, Asiaei et al. (2018) has proven that there was a significant positive relationship
25 between HCE levels and the use of a balanced performance measurement system.
26 Dženopoljac et al. (2016) also revealed that HCE has a direct positive impact on the
27 financial performance of companies. Therefore, Companies that have a higher HCE are
28 more likely to have a higher ROE, a higher ROA, a higher ROIC and tend to be more
29 profitable.
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32 In general, various strategies have been carried out by many companies to regulate
33 structural capital in order to optimize overall business performance. Intellectual capital (IC)
34 has a central role in determining the structural capital model used in companies. Gogan et al.
35 (2015) revealed that determining the right model in structural capital needs to be done in
36 order to obtain competitive advantages in the market. This study indicates that IC plays an
37 important role in determining efficient structural capital so that the organization's desire to
38 be competitive in the market can be achieved. In addition, Ciprian et al. (2012) explained
39 that IC is not sufficient to determine the accuracy of structural capital sizes, it is necessary to
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3 complement positions on intangible assets that can help to determine company policies and
4 decisions.
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6 Andersson et al. (2006) revealed that shareholder demand is a higher return on capital
7 Employed (ROCE). It means, capital employed efficiency (CEE) represents intellectual
8 capital (IC) which is able to perform accurate calculations in capital investment in order to
9 obtain optimal returns. As Mørch et al. (2017) have explained that CEE plays an important
10 role in making investment decisions because accurate calculations are needed regarding the
11 fitness of operations and financial performance of investments. Thus, Intellectual Capital
12 efficiency (ICE) has an important role in investment decisions.
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18 **b. Intellectual Capital Efficiency (ICE) Measurement Model on Stock Price Risk**

19 Basically, the efficiency of intellectual capital (ICE) plays a role in the application of
20 HCE (Human Capital Efficiency), SCE (Structural capital Efficiency), and CEE (Capital
21 Employed Efficiency). This study will examine the effect of ICE on stock price risk. In the
22 testing process, we combine the measurement model of the performance of intellectual
23 potential in knowledge economy developed by (Pulic, 1998) and the calculation of the
24 negative coefficient of firm-specific daily returns (NCSKEW) developed by (Chen et al.,
25 2017). ICE is calculated using three components, namely value added human capital
26 efficiency (VAHU), value added structural capital (STVA), and value added capital
27 employed (VACA). Meanwhile, stock price risk is calculated using NCSKEW. More
28 detailed calculations are explained in the method section.
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37 Several studies have used this model which shows mixed results as well. Hejazi et al.
38 (2016) found that increasing intellectual capital (IC) should increase firm value. Meanwhile,
39 Kamukama and Sulait (2017) showed a positive and significant relationship between human
40 capital, relational capital, structural capital on competitive advantage. Another study shows
41 that the three sub-constructions of IC together have a positive and substantive relationship
42 with business performance (Huang and Liu, 2005; Sharabati et al., 2010). The three studies
43 indicate that Innovation and creation play a dominant role in describing the latent constructs
44 of IC. Based on discussion above, hypothesis (H1) is given
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51 H1a : Human capital efficiency is positively related to firm performance

52 H1b : Structural capital efficiency is positively related to firm performance

53 H1c : Capital employed efficiency is positively related to firm performance
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5 Chen et al. (2005) have confirmed that investors place higher value on companies with
6 better intellectual capital efficiency. Furthermore, Song (2015) has shown that management
7 tends to hide some negative information and suddenly release negative information in the
8 future if the company has a higher level of accounting disclosure of intellectual capital.
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10 Dong and Zhang (2016) have also shown that environmental control, information and
11 communication, and monitoring components significantly reduce the risk of accidents while
12 risk assessment and control activity components do not show any relation to the risk of a
13 stock price crash. Ben-Nasr and Ghouma (2018) explained that employee welfare also
14 factors that contribute to the risk of stock price crashes. Further analysis shows a strong
15 corporate governance mechanism can reduce the risk of rising stock price crashes in less
16 unionized companies and there is a negative impact of union strength on the risk of stock
17 price crashes (Liao and Ouyang, 2017). Meanwhile, Anifowose et al. (2017) showed a
18 positive relationship between the intellectual capital as a whole and the market capitalization
19 value of the company. Some of these studies imply that IC can reduce the risk of stock
20 investment. Based on discussion above, hypothesis (H2) is given.
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31 H2a : Human capital efficiency is negatively related to stock price crash risk

32 H2b : Structural capital efficiency is negatively related to stock price crash risk

33 H2c : Capital employed efficiency is negatively related to stock price crash risk
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38 Bennett et al. (2020) has explained that management, directly or indirectly, learns from
39 its firm's stock price, so that more informative stock prices should make the firm more
40 productive. It means, informativeness of stock prices indicates that the company's
41 performance is better. As Martani et al. (2009) mentioned in their research that the
42 company's financial performance is shown by the profitability ratio and the market value
43 ratio significantly influences returns in the company. Based on this research, the following
44 hypothesis (H3) can be formulated as
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50 H3 : firm performance is negatively related to stock price crash risk
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53 Intellectual capital (IC) owned by the company is expected to create added value so that
54 it can improve company performance. Good firm performance is one of the signals that will
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3 be considered by investors in making investment decisions. Cenciarelli et al. (2018) in her
4 research showed that bankruptcy prediction models that include IC have superior predictive
5 capabilities over standard models. Meanwhile, stock price crashes are very likely to occur if
6 the organization's internal controls are ineffective. The effectiveness of internal control
7 depends on research and development (R&D) conducted by the company. Zhou and Pan
8 (2018) explained that companies that will develop Intellectual capital require capital for
9 R&D so they are faced with financing constraints. It means, IC efficiency supports the
10 effectiveness of internal control. In addition, the level of social trust also plays a role in the
11 risk of stock price crashes. According to Cao et al. (2016), social trust, as a socioeconomic
12 factor, is negatively correlated with accident risk. There is a fact that companies in areas of
13 high social trust tend to hide bad news. Management tends to disclose more related
14 information to get investor. Thus, intellectual capital efficiency is needed as a corporate
15 strategy to increase information transparency and financial performance which will manifest
16 towards increasing investor confidence. Based on discussion above, we can hypothesize
17 (H4) that
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19 H4a: Human capital efficiency is negatively related to stock price crash risk by using
20 firm performance as intervening variable
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22 H4b: Structural capital efficiency is negatively related to stock price crash risk by using
23 firm performance as intervening variable
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25 H4c: Capital employed efficiency is negatively related to stock price crash risk by using
26 firm performance as intervening variable
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28 **3. Research Design**

29 **a. Sample**

30 This study uses companies from various sectors as research objects as the sample for the
31 research. The sample collected from Indonesia Stock Exchange (IDX) annual report data in
32 2018. We also obtain weekly stock data from Yahoo Finance. We then use the following
33 selection criteria: First, similar to Khan and Watts (2009), we require that total assets and
34 book, values of equity for each firm be greater than zero. Second, to be included in the
35 sample, a firm must have at least 20 weekly returns for each fiscal year. We also excluded
36 incomplete company data and financial information. Finally, we obtained samples from 152
37 companies to apply to the study.
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b. Measurement of Independent variables

Chen et al. (2005) argue that value added intellectual coefficient (VAIC) and its three components, HCE (Human Capital Efficiency), SCE (Structural capital Efficiency), and CEE (Capital Employed Efficiency) represent the independent variables. In order to calculate VAIC, we have to know the amount of HCE, SCE, and CEE. It can be expressed in Formula 1.

$$\text{VAIC} = \text{HCE} + \text{SCE} + \text{CEE} \dots\dots\dots \text{Formula 1}$$

To measure VAIC we need value added to be calculated. In its simplest form VA is the difference between output and input. Output represents net sales revenues and input contains all the expenses incurred in earning the sales revenues except labor costs which are considered to be a value creating entity (Tan et al., 2008). This VA is also defined as the net value created by firms during the year (Chen et al., 2005), VA could be calculated using Formula 2.

$$\text{VA} = \text{S} - \text{B} = \text{NI} + \text{T} + \text{DP} + \text{I} + \text{W} \dots\dots\dots \text{Formula 2}$$

Notes : S is sales; B is Cost of Goods Sold; NI is net income after tax; T is taxes; DP is depreciation; I is interest expense; and W is wages and salaries for employee.

iv. Human Capital Efficiency (HCE)

Human capital (HC) factors consist of skills, knowledge, productivity, competence, and all the things that fit with employee in the work place. Human capital efficiency (HCE) can be calculated using a calculation developed by Pulic (1998), where HCE is calculated using the formula value added human capital efficiency (VAHU). VAHU calculations can be seen in Formula 3.

$$\text{VAHU} = \text{VA} / \text{HC} \dots\dots\dots \text{Formula 3}$$

v. Structural Capital Efficiency (SCE)

Structural Capital (SC) is one of elements in intellectual capital, it consists of organizational networks, patents, strategy, and brand names. Based on Pulic (1998), we calculated SC as in Formula 4. Meanwhile, structural capital efficiency (SCE) is calculated using value added structural capital (STVA) as in Formula 5.

$$\text{SC} = \text{VA} - \text{HC} \dots\dots\dots \text{Formula 4}$$

$$\text{STVA} = \text{SC} / \text{VA} \dots\dots\dots \text{Formula 5}$$

Structural capital efficiency (SCE) is the dollar of SC within the firm, for every dollar of value added, and as HCE increases, SCE increases. If the efficiency measures for both HCE and SCE were calculated with VA as the numerator, the logical inconsistency would remain (Pulic, 1998).

vi. *Capital Employed Efficiency (CEE)*

Capital Employed Efficiency (CEE) is the efficiency that SCE and HCE fail to capture. Pulic (1998) argues that IC cannot create value on its own, and so it must be combined with capital (physical and financial) employed (CE). CEE shows how much VA is created by a dollar spent on capital employed (CE). We could calculate CE as the total assets minus intangible assets and CEE is defined as value added capital employed (VACA). VACA calculations can be seen in Formula 6.

$$VACA = VA / CE \dots \dots \dots \text{Formula 6}$$

c. Measurement of Dependent variable

The risk of stock price crash is the risk of a stock price decline in a significant range after the price had soared (Kim and Zhang, 2016). This variable was developed using a model developed by Chen et al. (2017) which can be seen in Formula 7.

$$NCSKEW = \frac{-[n(n-1)3/2 \sum_{T=1}^n (w_{i,T,t} - \bar{w}_{i,t})^3]}{[(n-1)(n-2)(\sum_{T=1}^n (w_{i,T,t} - \bar{w}_{i,t})^2)^{3/2}} \dots \dots \dots \text{Formula 7}$$

Notes: $W_{i,T,t}$ is the company's weekly specific stock returns for T weeks in year t , $\bar{w}_{i,t}$ is the average weekly return of the company's specific stock for year t and n is the number of weeks for year t . The larger NCSKEW represents a greater negative slope rate of return, which means a greater risk of stock price crashes that can occur.

d. Measurement of Intervening variable

This paper uses firm performance as intervening variable. We use ROE to analyze the firm performance. We calculate this ratio with formula 8.

$$ROE = \frac{\text{Earning after tax}}{\text{Equity}} \dots \dots \dots \text{Formula 8}$$

e. Empirical Models

This study uses path analysis that produce two model regression to test our hypotheses.

Model I

$$ROE = \alpha + \beta_1 VAHU + \beta_2 STVA + \beta_3 VACA + \beta_4 SIZE - \mu$$

Model II

$$NCSKEW = \alpha - \beta_1 STVA - \beta_2 VACA - \beta_3 AHU + \beta_4 SIZE - \beta_5 ROE - \mu$$

Notes: *ROE* is ratio for measuring firm performance, *NCSKEW* is the negative coefficient of firm-specific daily returns as a proxy of stock price crash risk, *VAHU* is value added human capital, *STVA* is structural capital value added, *VACA* is value added capital employed, and *SIZE* is firm size as control variable in this study.

4. Results

a. Normality Test

Table 1 show that the significance value of Asymp. The Sig (2-tailed) is 0.200. The value is greater than 0.1. Then according to the basis of decision making in the Kolmogorov-Smirnov normality test above, the result can be concluded that the data is normally distributed so that the assumptions or statements of normality in the regression model have been fulfilled for data above.

Table1. Normal Probability Test Result

One-Sample Kolmogorov-Smirnov Test		Unstandardized Residual
N		152
Normal Parameters ^{a,b}	Mean	0.000
	Std. Deviation	0.924
Most Extreme Differences	Absolute	0.059
	Positive	0.037
	Negative	-0.059
Test Statistic		0.059
Asymp. Sig. (2-tailed)		0.200 ^{c,d}

Notes:

- Test distribution is Normal.
- Calculated from data.
- Lilliefors Significance Correction.
- This is a lower bound of the true significance.

b. Multicollinearity Test

The basis for decision making from the multicollinearity test is done by looking at the value of Tolerance and VIF. Based on the output table, it is known that the tolerance value of each variable is greater than 0.1. While for the VIF value for each variable is less than 10. Then according to the basis for multicollinearity test decision making, we can conclude that there are no symptoms of multicollinearity in the regression model. Table 2 shows the results of the multicollinearity test.

Table 2. Multicollinearity Test Results

Model 1	Unstandardized		Standardized		t	Sig.	Collinearity	
	Coefficients		Coefficients				Statistics	
	B	Std. Error	Beta			Tolerance	VIF	
(Constant)	-4.074	1.323		-3.079	0.002			
VAHU	-0.062	0.096	-0.103	-0.640	0.523	0.247	4.052	
STVA	0.144	0.952	0.025	0.151	0.880	0.236	4.231	
VACA	0.958	0.891	0.117	1.076	0.284	0.538	1.860	
SIZE	0.123	0.043	0.248	2.857	0.005	0.847	1.181	
ROE	-0.271	1.481	-0.021	-0.183	0.855	0.475	2.104	

Note: Dependent Variable (NCSKEW)

c. Heteroskedasticity Test

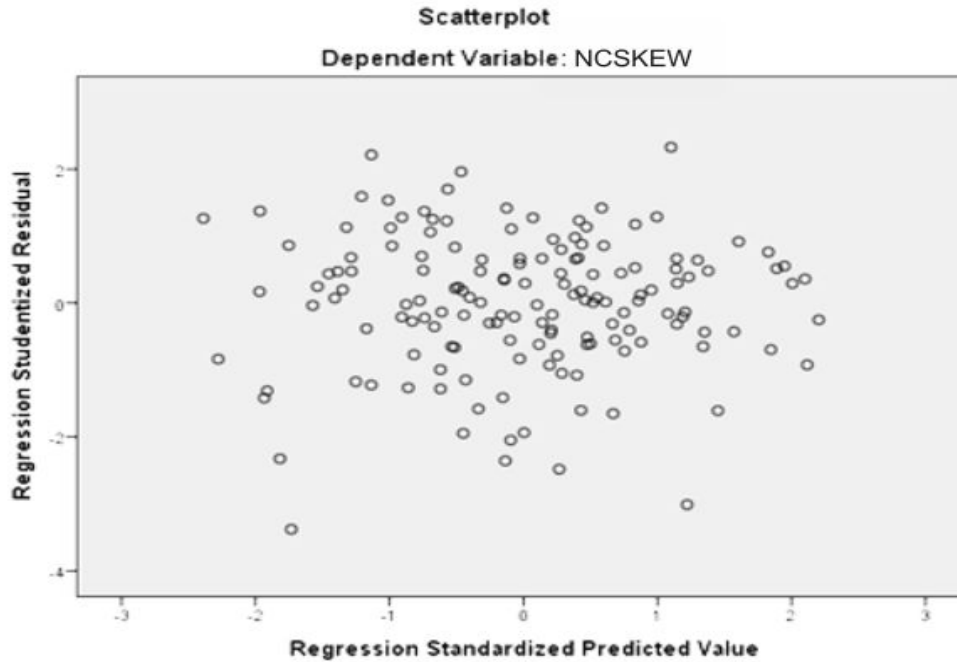
Based on Figure 1, we know that data dots spread above and below or around the number of 0. Then we can see that dots are not clustered just on above or below. The distribution of data points does not form a wavy pattern widened then narrowed and widened again. We also can see that the dots do not make any certain pattern. According from the analyses, we can conclude that there is no heteroscedasticity problem so that a good and ideal regression model can be fulfilled.

d. Path Analysis

In the Table 3, Model 1 shows that the STVA and VACA coefficients have a significant positive effect on ROE at a significance level of 1% with a significance value of 0.015 and 0,000, respectively. While based on the table given that there is no significant relationship between VAHU and ROE at the 1% significance level, so we can conclude that H1(a) is rejected. Based on a beta test, VACA is variable that have the most influences changes in ROE. The value of Sig. F-statistics show that at a significance level of 1%, VAHU, VACA, and STVA simultaneously influence on ROE. This result is a strong indicator that there is a relationship between intellectual capital and firm performance, thus supporting H1(b) and

H1(c). That is, if a firm is able to use its IC more efficiently in one year, this can lead to a performance increase in the same year.

Figure 1. Heteroskedasticity Test Result



In the Table 3, Model 2 shows that all of the components of intellectual capital do not have any significance relationship with stock price crash risk at 1% significance level. From table above we also know that ROE does not have any significance influence on stock price crash risk. Furthermore, we use model 1 and model 2 to do analysis path. After getting the numbers from the table, we calculate the indirect effect by multiplying the effect of the IC component with ROE and ROE with stock price crash risk. Based on the table and path analysis calculation, VAHU has a direct effect on stock price crash risk of 0.103 while the indirect effect of VAHU on stock price crash risk through ROE is 0,000399. STVA has a direct effect on the risk of a stock price crash of 0.025 while STVA has an indirect effect on the risk of a stock price crash of 0.005922. Furthermore, the VACA component has a direct effect of 0.117 and an indirect effect of 0.01264 on the risk of stock price crashes. According to the principle of path analysis that if the indirect effect is greater than the direct effect then it means there is a significant relationship in the indirect relationship between

variables. We can conclude from the data that VAHU, STVA, and VACA do not have any significant relationship to stock price crash risk either directly or indirectly through firm performance.

Table 3. The Results of Regression Model

	Dependent Variable: ROE		Dependent Variable: NCSKEW	
	Predicted Sign	Model 1	Predicted Sign	Model 2
VAHU	+	0.001 (0.005)	-	-0.062 (0.096)
STVA	+	0.128** (0.052)	-	0.144 (0.952)
VACA	+	0.404* (0.037)	-	0.958 (0.891)
SIZE (Control)	+	0.010* (0.002)	-	0.123 (0.043)
ROE (Intervening)			-	-0.271 (1.481)
Constant		-0.340 (0.068)		-4.074 (1.323)
R-square (R ²)		0.525		0.066
Sig. F Stat		0.000*		0.074***
N		152		152

Note: This table presents the correlation coefficient number (β), while the number between parentheses is the standard error. The *, **, and *** signs indicate significance at the levels of 1%, 5%, and 10%.

5. Discussion

Several studies show that intellectual capital (IC) has an important role in improving sustainable company performance and business progress (see e.g. Castillo et al., 2019; Lee and Lin, 2019; Opong and Pattanayak, 2019; Secundo et al., 2020). However, the test results in this study prove that IC has no effect on stock crash risk on the Indonesia Stock Exchange (IDX). In addition, other results show that the company's performance as represented by return on equity (ROE) also has no effect on stock price crash risk. This means, IC only plays a role in controlling company performance and does not play a role in controlling share prices.

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3 Internationally, the efficiency of share price information is influenced by investors'
4 understanding of the long-term relationship between stock market volatility and the uncertainty
5 of international economic policy (Belcaid and Ghini, 2019). In addition, a study in France also
6 shows that stock exchanges find it difficult to maintain the efficiency of stock information during
7 global macroeconomic events (Boya, 2019). Thus, external factors, namely the ability of
8 investors to analyze stock price volatility and macroeconomic events, play a greater role in
9 controlling the risk of falling share prices, while IC does not have an important role in
10 controlling stock prices.

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12 Studies in China show that regulations that promote the efficiency of share prices also have
13 an important role in controlling stock prices (He and Fang 2019). Another study shows that
14 Chinese investor sentiment (CIS) also affects stock price volatility (Li, 2019). These two studies
15 imply that companies have more interest in stock investment so that anomalies of information
16 have the potential to be carried out by companies in order to increase company capital. This
17 resulted in negative sentiment by investors towards the company. Thus, investor sentiment and
18 government regulations that encourage an efficient market on the stock exchange also play a role
19 in stock price volatility. In our opinion, intellectual capital (IC) does not play a role in controlling
20 the risk of falling share prices, while external factors such as macroeconomic events, investor
21 sentiment, and regulations that promote efficient markets have a strong influence on the risk of
22 falling share prices.

33 34 35 36 37 38 **6. Conclusion**

39 This study examines the effect of intellectual capital components on stock price crash risk by
40 using firm performance as an intervening variable. This research is a quantitative study using
41 secondary data on annual reports published by the IDX (Indonesia Stock Exchange) and stock
42 price data published by Yahoo Finance. Intellectual capital variables are measured by the Value
43 added Intellectual capital (VAIC) method written by Pulic (1998) and stock price crash risk
44 variables are measured by NCSKEW developed by Chen et al. (2017). Data is processed using
45 the path analysis method to determine the direct effect and indirectly from each of the
46 interrelated variables.

47 Simultaneously, the VAHU, STVA, and VACA variables have a significant relationship to
48 firm performance but partially the VAHU does not have a significant effect like STVA and
49

VACA. Capital employed has the biggest influence on firm performance. The findings state that the three intellectual capital variables do not have a significant direct or indirect relationship with stock price crash risk. The findings show that enhancing intellectual capital is an important thing to do to improve firm performance but having good performance does not mean can reduce stock price crash risk in the future.

Based on the discussion section, it shows that intellectual capital (IC) does not play a role in controlling of stock price crash risk. Meanwhile, the results of previous research explorations indicate that the occurrence of macroeconomic events, investor sentiment and regulations that promote efficient markets are determining factor for stock price volatility which is connected to the stock price crash risk. In the end, we concluded that enhancing intellectual capital is an important thing to do to improve firm performance but having good performance does not mean can reduce stock price crash risk in the future.

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**Does Intellectual Capital Have Any Influence On Stock Price
Crash Risk?**

Journal:	<i>Journal of Intellectual Capital</i>
Manuscript ID	JIC-09-2020-0306.R2
Manuscript Type:	Research Paper
Keywords:	Intellectual capital, stock price crash risk, firm performance, Disclosure, investor sentiment, volatility
Abstract:	

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MANUSCRIPT DETAILS

: Does Intellectual Capital Have Any Influence On Stock Price Crash Risk?

:paper explore the influence between intellectual capital and the risk of stock price crashes by using company performance as an intervening variable.study empirically analyzes the impact of the efficiency of intellectual capital on stock price crash risk using a sample size of 152 companies listed on the Indonesia Stock Exchange during 2018. To test the research hypotheses, regression analysis and path analysis were applied. In addition, the researchers added exploration to several studies to strengthen the results of this study.findings indicate that investors' optimistic (pessimistic) sentiment regarding stock price volatility has obscured aspects of the financial performance of listed companies. This finding implies that investor sentiment has dominated influence on stock price crash risk so that the aspects of intellectual capital are obscured. **_RESEARCH_LIMITATIONS/IMPLICATIONS_(LIMIT_100_WORDS)** :No data available. **_PRACTICAL_IMPLICATIONS_(LIMIT_100_WORDS)** :No data available.research provides new information that intellectual capital disclosure in the stock market needs to include knowledge of the volatility of stock prices in order to reveal stock price crash risk.

A. 00RESPONSE TO REVIEWER COMMENTS

Manuscript ID : ID JIC-09-2020-0306

Manuscript Title : Does Intellectual Capital Have Any Influence On Stock Price Crash Risk?

Reviewer 1, the first comment

1. Originality: Does the paper contain new and significant information adequate to justify publication?: Yes

Responses:

Done

Reviewer 1, the second comment

2. Relationship to Literature: Does the paper demonstrate an adequate understanding of the relevant literature in the field and cite an appropriate range of literature sources? Is any significant work ignored?: Literature has been improved

Responses:

Done

Reviewer 1, the third comment

3. Methodology: Is the paper's argument built on an appropriate base of theory, concepts, or other ideas? Has the research or equivalent intellectual work on which the paper is based been well designed? Are the methods employed appropriate?: yes

Responses:

Done.

Reviewer 1, the fourth comment

4. Results: Are results presented clearly and analysed appropriately? Do the conclusions adequately tie together the other elements of the paper?: yes

Responses:

Done

Reviewer 1, the fifth comment

5. Implications for research, practice and/or society: Does the paper identify clearly any implications for research, practice and/or society? Does the paper bridge the gap

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3 **between theory and practice? How can the research be used in practice (economic and**
4 **commercial impact), in teaching, to influence public policy, in research (contributing**
5 **to the body of knowledge)? What is the impact upon society (influencing public**
6 **attitudes, affecting quality of life)? Are these implications consistent with the findings**
7 **and conclusions of the paper?: Implications' improvement is strongly recommended.**
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10 **Responses:**

11 We've added an implication section in the text.

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15 a. In **part 6, b. Implications**, the explanation in this part is as follows:

16 *The second paragraph*

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18 *Basically, the ability and knowledge for compiling a stock portfolio that reveals specific*
19 *information about the company is needed to increase shareholders' confidence (Chance*
20 *and Yang, 2007). Meanwhile, specific information about the company will produce*
21 *idiosyncratic volatility, which is the best predictor of stock returns and is proven to*
22 *have a positive impact on investors' heterogeneous beliefs (Kongsilp and Mateus, 2017;*
23 *He et al., 2020). Zhan (2019) argues that there was a positive relationship between*
24 *synchronization of stock price movements and stronger stock market volatility for*
25 *emerging markets during the financial crisis from June 2007 to December 2008. As*
26 *regards practical application, IC represents the knowledge and ability for preparing a*
27 *stock portfolio that contains company-specific information, which is needed to minimize*
28 *stock price crash risk.*
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37 Additional scientific sources:

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Chance, D. M. and Yang, T. -H. (2007). Black–Scholes–Merton, Liquidity, and the Valuation of Executive Stock Options, *Hirschey, M., John, K. and Makhija, A.K. (Ed.) Issues in Corporate Governance and Finance (Advances in Financial Economics, 12)*, Emerald Group Publishing Limited, Bingley, 271-310.

He, M., et al. (2020). Heterogeneous beliefs and idiosyncratic volatility puzzle: evidence from China, *China Finance Review International*, 11(1), 124-141.

Kongsilp, W. and Mateus, C. (2017). Volatility risk and stock return predictability on global financial crises. *China Finance Review International*, 7(1), 33-66.

Zhan, F. (2019). Individualism, synchronized stock price movements, and stock market volatility. *International Journal of Managerial Finance*, 15(3), 371-403.

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3 **Reviewer 1, the sixth comment**
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5 **6. Quality of Communication: Does the paper clearly express its case, measured against**
6 **the technical language of the field and the expected knowledge of the journal's**
7 **readership? Has attention been paid to the clarity of expression and readability, such**
8 **as sentence structure, jargon use, acronyms, etc.: Proofreading is still recommended**
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12 **Responses:**

13 We have used proofreading services recommended by the journal: www.scribendi.com in a
14 whole document.
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19 **Reviewer 2, the first comment**

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21 **1. Originality: Does the paper contain new and significant information adequate to**
22 **justify publication?: I think that this paper is original offering a significant**
23 **perspective in the analysis of relation between Intellectual Capital (IC) and firm**
24 **performance with a specific focus on stock price crash risk.**
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27 **Responses:**

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33 **Reviewer 2, the second comment**

34 **2. Relationship to Literature: Does the paper demonstrate an adequate understanding**
35 **of the relevant literature in the field and cite an appropriate range of literature**
36 **sources? Is any significant work ignored?: In this version of paper, the literature has**
37 **been improved and updated with more recent papers in relationship to the received**
38 **suggestions.**
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42 **Responses:**

43 Done
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48 **Reviewer 2, the third comment**

49 **3. Methodology: Is the paper's argument built on an appropriate base of theory,**
50 **concepts, or other ideas? Has the research or equivalent intellectual work on which**
51 **the paper is based been well designed? Are the methods employed appropriate?:**
52 **Methodology is coherent with the research design and well-presented in relation to**
53 **the investigated research hypothesis.**
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58 **Responses:**

59 Done
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5 **Reviewer 2, the fourth comment**

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7 **4. Results: Are results presented clearly and analysed appropriately? Do the**
8 **conclusions adequately tie together the other elements of the paper?: Results are well**
9 **presented and are rewritten in relationship to the received suggestions.**

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12 **Responses:**

13 Done
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17 **Reviewer 2, the fifth comment**

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19 **5. Implications for research, practice and/or society: Does the paper identify clearly**
20 **any implications for research, practice and/or society? Does the paper bridge the gap**
21 **between theory and practice? How can the research be used in practice (economic**
22 **and commercial impact), in teaching, to influence public policy, in research**
23 **(contributing to the body of knowledge)? What is the impact upon society**
24 **(influencing public attitudes, affecting quality of life)? Are these implications**
25 **consistent with the findings and conclusions of the paper?: The sections of discussion**
26 **and conclusions have been well revised by inserting the practical, managerial and**
27 **academic implications, as well as by inserting future lines of research.**

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34 **Responses:**

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40 **Reviewer 2, the sixth comment**

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42 **6. Quality of Communication: Does the paper clearly express its case, measured against**
43 **the technical language of the field and the expected knowledge of the journal's**
44 **readership? Has attention been paid to the clarity of expression and readability, such**
45 **as sentence structure, jargon use, acronyms, etc.: The Author(s) accepted the**
46 **suggestion to carry out a professional proof-editing in order to further improve the**
47 **quality of the paper in line with the journal requirements.**

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51 **Responses:**

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53 We have used proofreading services recommended by the journal: www.scribendi.com in a
54 whole document.
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Revised manuscript:**Does Intellectual Capital Have Any Influence on Stock Price Crash Risk?****ABSTRACT****Purpose**

This ~~paper study paper~~ ~~aims to~~ explore the influence between intellectual capital and the risk of stock price crashes by using company performance as an intervening variable.

Design / methodology / approach

This study empirically analyzes the impact of ~~the~~ efficiency of intellectual capital on stock price crash risk using ~~a sample size of 152 sample-of~~ companies listed on ~~the~~ Indonesia Stock Exchange (IDX) ~~in the period of~~ during 2018. To test the research hypotheses, regression analysis and path analysis ~~are~~ ~~were~~ applied. In addition, the researchers added exploration to several studies to strengthen the results of this study.

Findings

Our findings indicate that investors' optimistic (pessimistic) sentiment regarding stock price volatility has obscured aspects of the financial performance of listed companies. This finding implies that investor sentiment has dominated ~~its~~ influence on stock price crash risk, so that the aspects of intellectual capital are obscured.

Originality / value

This research provides new information that intellectual capital disclosure in the stock market needs to ~~involve-include a~~ knowledge of the volatility of stock prices in order to reveal stock price crash risk.

Key word: Intellectual capital, stock price crash risk, firm performance, disclosure, social capital, corporate governance convergence.

1. Introduction

Companies ~~in modern era~~ nowadays are being replaced with a knowledge--based, fast--changing, and technologic~~ally~~-intensive economy, including in Indonesia. Most ~~of~~ companies use technology to enhance the efficiency of ~~in~~ companies' activities~~sy~~ and depress expenses incurred. In this modern economy, for many firms, the most important ~~and essential asset asset must be had for each company~~ is intellectual capital (IC). ~~It has been different from previous era~~ in sharp contrast to times when ~~that~~ physical capital was the power of ~~the~~ companies. Previous studies have shown that company value and capability are often based on the intangible ~~intellectual capital~~ (IC) that it possesses (Berzkalne and Zelgalve, 2014; Huang and Huang, 2020). Liu and Jiang (2020) have also proven that IC has a positive impact on business progress, such as increasing brand equity and social networking. In addition, IC ~~also~~ provides various positive benefits for companies such as employees' job satisfaction and retention

(Longo and Mura, 2011), increasing business innovation (Ornek and Ayas, 2015; Adesina, 2019), increasing the relevance of accounting information (Hayati et al., 2015), and cost efficiency (Martinez et al., 2020). In this study, we ~~would intuitively expect~~propose that the application of ~~intellectual capital~~IC in the company is ~~able expected~~to reduce risk on stock price crashes.

The purpose of this study is to find out the relationship between efficiency of ~~intellectual capital~~IC and stock price crash risk in the future by using firm performance as the mediating variable. -Clarke et al. (2011) stated that ~~Intellectual capital~~(IC) has a positive influence on firm performance, which is characterized by three components of IC efficiency (ICE), ~~such as:~~ HCE (~~H~~human Capital ~~E~~fficiency (HCE)), SCE (~~S~~structural capital Efficiency (SCE)), and CEE (~~C~~apital Employed ~~E~~fficiency (CEE)). ~~It~~These factors could be a good indicator~~good signal~~ for ~~companies'~~company shareholders, because a company with good ICE~~efficiency on IC~~means indicates that they have been using their resources for its best~~efficiently~~. Several studies have proven that IC reflects good competence, skills, and knowledge, ~~that which~~ can improve financial performance and increase stock returns (Lentjushenkova and Lapina, 2014; Zhou and Pan, 2018). Thus, ~~IC represents good competency, skills and knowledge so that~~ the company ~~is able to~~can disclose information in accordance with the needs of the shareholders.

Based on a Taiwanese study by Chen et al. (2005), this study uses the quantitative measure, value added intellectual coefficient (VAIC), developed by Pulic (1998) as a measure of IC ~~efficiency~~E. Data is collected for firms listed on the Indonesia Stock Exchange (IDX) ~~listed firms~~ in 2018. We ~~analyze using~~used path analysis ~~for knowing to determine~~ whether there is any relation between ~~intellectual capital~~IC, firm performance, and stock price crash risk. Prior VAIC studies have investigated the direct relationship between IC and performance, but there is no ~~investigate research about on the~~ relationship between IC and ~~S~~stock Price ~~C~~rash Risk. ~~Finally,~~This study contributes to the literature by bridging this gap in the knowledge, that is, ~~on the relationship~~ between ~~Intellectual Capital~~IC and stock price crashes.

This paper proceeds as follows. Section 2 reviews the relevant literature and develops our hypotheses. Section 3 describes the data and research design. Section 4 presents the main empirical results. Section 5 ~~discusses~~esions the findings. Section 6 concludes the paper.

2. Literature Review and Hypothesis

a. Strengths and Weaknesses of Measuring Intellectual Capital

Basically, ~~intellectual capital~~(IC) is measured by various elements such as human capital, physical capital, structural capital, social capital, and relational capital. However,

several previous studies have shown that there are several drawbacks to IC measurement. Adesina (2019) has measured IC with three components, namely human capital, physical capital, and structural capital; however, only human capital is positively related to all the three efficiencies (technical, allocative, and cost). Castillo et al. (2019) proved that capabilities of human resources are relevant for these organizations, as well as the internal processes, and the relationships with customers. On the issue of environmental protection, Yong et al. (2019) revealed that green human capital and green relational capital were influenced by green human resource management, but green structural capital was not significantly related to green human resource management. Yusoff et al. (2019) also revealed that green human capital does not have a positive relationship with business sustainability.

Although IC possesses ~~there are various~~ weaknesses of intellectual capital (IC), its advantages, ~~have been~~ demonstrated in ~~several~~ previous studies, ~~outweigh them~~. Barrera-Martínez et al. (2020) proved that the three components of IC (relational capital, human capital, and structural capital) positively affect open innovation (OI) performance. Salvi et al. (2020) suggested a significantly positive relationship between all three components of IC (~~structural, human, social and relationship~~) and firm value, generating multiple implications for reporting entities, investors, regulators, and managers. Mahmood and Mubarik (2020) showed that specific policies aimed at developing ~~the~~ IC of a firm, which in turn can enable a firm to maintain a balance between innovation and market exploitation activities. Yusliza et al. (2020) ~~revealed that indicated~~ the contribution of green ~~intellectual capital~~ IC ~~asto be~~ an intangible resource for organizations in achieving sustainable performance, ~~and providing~~ a competitive advantage for future researchers. Dubic et al. (2021) revealed that the intellectual agility of employees positively influences the innovativeness of micro and small businesses, but this effect is strongly mediated through entrepreneurial leadership. ~~It meanings~~ that human capital has an important role in business innovation. This study will explore the efficiency of ~~intellectual capital~~ IC using three measures (~~H~~human capital, ~~S~~structural capital, and ~~C~~capital employed).

b. The ~~D~~determinant of Information Efficiency

Internationally, the efficiency of share price information is influenced by investors' understanding of the long-term relationship between stock market volatility and the uncertainty of international economic policy (Belcaid and Ghini, 2019). A study in France also shows that stock exchanges find it difficult to maintain the efficiency of stock information during global macroeconomic events (Boya, 2019). Hu et al. (2020) revealed

that board reforms reduce crash risk by improving financial transparency and enhancing investment efficiency. In Indonesia, sub-optimal financial positions play a role in ~~the~~ corporate share repurchases decisions, while the enactment of the regulations has a significant effect on firms' undertaking share repurchases programs (Moin et al., 2020). In China, regulations that promote the efficiency of share prices also ~~have-play~~ an important role in controlling stock prices (He and Fang, 2019). Thus, external factors, namely the ability of investors to analyze stock price volatility, macroeconomic events, financial transparency, and ~~G~~government regulations, play a greater role in controlling the risk of stock price crashes, while IC does not ~~have-play~~ an important role in controlling stock prices.

Luo and Zang (2020) have proven that economic policy uncertainty is significantly and positively associated with aggregated stock price crash risk at the market level. Meanwhile, Wen et al. (2019) revealed that higher quality auditing can mitigate the impact of retail investor attention on firms' future crash risk. Lee et al. (2020) revealed that a supplier firm with a concentrated customer base experiences a higher crash risk, ~~which~~ is attenuated by lower switching costs and ~~is~~ accentuated when the degree of information asymmetry is high. Another study shows that Chinese investor sentiment (~~CIS~~) also affects stock price volatility (Li, 2019). Likewise, Ma et al. (2020) suggests that exposure to an undiversified corporate customer base can have a negative bearing on a firm's crash risk. The ~~fifth-five~~ studies indicate that economic policy, investor sentiment, and audit quality have a significant effect on the risk of stock price crashes.

c. Intellectual Capital Efficiency (ICE)

~~Intellectual Capital (IC)~~ represents a company's intangible knowledge assets in the form of information and knowledge resources (Kitts et al., 2001). Several studies have revealed that ~~Intellectual Capital efficiency (ICE)~~ can improve the performance of companies (see e.g., Clarke et al., 2011; Gogan et al., 2016; Asiaei and Jusoh, 2017; Mustapha and Abdelheq, 2018; McDowell, 2018; Sardo et al., 2018; Huang and Huang, 2020). Investors are ~~very-quite~~ interested in buying shares when the company has implemented ICE. ~~As~~-Lin et al. (2015); ~~and~~ Ozkan et al. (2017) shows that the greater ~~of~~ ~~the~~ ICE, the more it reduces stock price crashes.

Jerzak (2015) shows that human capital constitutes inborn skills and acquired skills, which, if invested efficiently, ~~in~~ can ~~be~~ strengthen the company's position, ~~helping it~~ and gains a competitive advantage. ~~It~~ ~~This~~ means, ~~that the efficiency of human capital (HCE)~~ represents ~~the-a~~ selection of superior ~~intellectual capital (IC)~~ to be employed in the

company's business. Meanwhile, Asiaei et al. (2018) ~~has~~ proven that there ~~was~~ is a significant positive relationship between HCE levels and the use of a balanced performance measurement system. Dženopoljac et al. (2016) also revealed that HCE has a direct positive impact on the financial performance of companies. Therefore, ~~€~~companies that have a higher HCE are more likely to have a higher return on equity (ROE), a higher return on asset (ROA), a higher return on invested capital (ROIC), and tend to be more profitable.

In general, various strategies have been carried out by many companies to regulate structural capital in order to optimize the overall business performance. ~~Intellectual capital (IC) has~~ plays a central role in determining the structural capital model used in companies. Gogan et al. (2015) ~~revealed~~ posit that determining the right model in structural capital is essential ~~needs to be done in order~~ to obtain a competitive advantages in the market. This study indicates that IC plays an important role in determining efficient structural capital so that the organization's desire to be competitive in the market can be achieved. In addition, Ciprian et al. (2012) explained that IC is not sufficient to determine the accuracy of structural capital sizes; it is necessary to complement positions on intangible assets that can help to determine company policies and decisions.

Andersson et al. (2006) revealed that shareholder demand is a higher return on capital ~~employed (ROCE)~~. ~~It means~~ that capital employed efficiency (CEE) represents ~~intellectual capital (IC)~~ which is able to ~~can~~ perform accurate calculations in capital investment in order to obtain optimal returns. ~~As~~ Mørch et al. (2017) ~~have~~ explained that CEE plays an important role in making investment decisions because accurate calculations are needed regarding the fitness of operations and the financial performance of investments. Thus, ~~Intellectual Capital efficiency (ICE) has~~ plays an important role in investment decisions.

d. Intellectual Capital Efficiency (ICE) Measurement Model on Stock Price Risk

Basically, the efficiency of ~~intellectual capital (ICE)~~ plays a role in the application of HCE (~~Human Capital Efficiency~~), SCE (~~Structural capital Efficiency~~), and CEE (~~Capital Employed Efficiency~~). This study will examine the effect of ICE on stock price risk. In the testing process, we combine the measurement model of the performance of intellectual potential in the knowledge economy developed by ~~(Pulic, (1998)~~ and the calculation of the negative coefficient of firm-specific daily returns (NCSKEW) developed by ~~(Chen et al., (2017)~~. ICE is calculated using three components, namely value-added human capital efficiency (VAHU), value-added structural capital (STVA), and value-added capital

employed (VACA). Meanwhile, stock price risk is calculated using NCSKEW. More detailed calculations are explained in the methods section.

Several studies have used this model, which shows mixed results as well. Hejazi et al. (2016) found that increasing ~~intellectual capital (IC)~~ should increase firm value. Meanwhile, Kamukama and Sulait (2017) showed a positive and significant relationship between human capital, relational capital, and structural capital on competitive advantage. Another study shows that the three sub-constructions of IC together have a positive and substantive relationship with business performance (Huang and Liu, 2005; Sharabati et al., 2010). The ~~three-four~~ studies indicate that innovation and creation play a dominant role in describing the latent constructs of IC. Based on the discussion above, hypothesis (H1) is: ~~given~~

H1a: Human capital efficiency is positively related to firm performance

H1b: Structural capital efficiency is positively related to firm performance

H1c: Capital employed efficiency is positively related to firm performance

Chen et al. (2005) have confirmed that investors place higher value on companies with better ~~intellectual capital efficiency ICE~~. Furthermore, Song (2015) has shown that the management tends to hide some negative information and suddenly release negative information in the future if the company has a higher level of accounting disclosure of ~~intellectual capital IC~~. Dong and Zhang (2016) have also shown that environmental control, information and communication, and monitoring components significantly reduce the risk of accidents, while risk assessment and control activity components do not show any relation to the risk of a stock price crash. Ben-Nasr and Ghouma (2018) explained that employee welfare is also a factors that contributes to the risk of stock price crashes. Further analysis shows that a strong corporate governance mechanism can reduce the risk of rising stock price crashes in less unionized companies and that there is a negative impact of union strength on the risk of stock price crashes (Liao and Ouyang, 2017). Meanwhile, Anifowose et al. (2017) showed a positive relationship between ~~the intellectual capital IC~~ as a whole and the market capitalization value of ~~the~~ company. Some of these studies imply that IC can reduce the risk of stock investment. Based on the above discussion ~~above~~, hypothesis (H2) is given as follows:-

H2a: Human capital efficiency is negatively related to stock price crash risk

H2b: Structural capital efficiency is negatively related to stock price crash risk

H2c: Capital employed efficiency is negatively related to stock price crash risk

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3 Bennett et al. (2020) ~~has~~ explained that the management, directly or indirectly, learns
4 from its firm's stock price, so that more informative stock prices should make the firm
5 more productive. ~~It means,~~ This means that the informativeness of stock prices indicates
6 that the company's performance is better. ~~As~~ Martani et al. (2009) mentioned ~~in their~~
7 ~~research~~ that ~~the a~~ company's financial performance is shown by the profitability ratio,
8 and the market value ratio significantly influences returns in the company. Based on this
9 ~~research~~, the following hypothesis (H3) can be formulated as:

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15 H3: ~~f~~firm performance is negatively related to stock price crash risk

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19 ~~Intellectual capital (IC)~~ owned by the company is expected to create added value so
20 that it can improve company performance. Good firm performance is ~~one of the signals~~ an
21 indicator that will be considered by investors in making investment decisions. Cenciarelli
22 et al. (2018) ~~in her research~~ showed that bankruptcy prediction models that include IC have
23 superior predictive capabilities over standard models. Meanwhile, stock price crashes are
24 very likely to occur if the organization's internal controls are ineffective. The effectiveness
25 of internal control depends on the research and development (~~Rand~~ R&D) conducted by
26 the company. —Zhou and Pan (2018) explained that companies that ~~will~~ develop
27 ~~Intellectual capital~~ IC require capital for ~~Rand~~ R&D, so they are faced with financing
28 constraints. ~~It~~ This means, that ~~IC efficiency~~ E supports the effectiveness of internal
29 control. In addition, the level of social trust also plays a role in the risk of stock price
30 crashes. According to Cao et al. (2016), social trust, as a socioeconomic factor, is
31 negatively correlated with accident risk. ~~There is a fact that e~~ Companies in areas of high
32 social trust tend to hide bad news. The Mmanagement tends to disclose more related
33 information to get acquire investors. Thus, ~~intellectual capital efficiency~~ ICE is needed as
34 a corporate strategy to increase information transparency and financial performance, which
35 will ~~manifest towards~~ result in increasing investor confidence. Based on the discussion
36 above, we can hypothesize (H4) that:

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51 H4a: Human capital efficiency is negatively related to stock price crash risk by using
52 firm performance as an intervening variable

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55 H4b: Structural capital efficiency is negatively related to stock price crash risk by
56 using firm performance as an intervening variable

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60 H4c: Capital employed efficiency is negatively related to stock price crash risk by
using firm performance as an intervening variable

3. Research Design

a. Sample

This study uses companies from various sectors as research objects ~~as the~~ and sample for the research. The sample ~~was~~ collected from ~~Indonesia Stock Exchange (IDX's)~~ annual report data ~~in~~for 2018. We also obtained ~~ed~~ weekly stock data from Yahoo Finance. We then ~~used~~ the following selection criteria: First, similar to Khan and Watts (2009), we required ~~d~~ that total assets and book ~~s~~ values of equity for each firm be greater than zero. Second, to be included in the sample, a firm must have at least 20 weekly returns for each fiscal year. We also excluded incomplete company data and financial information. Finally, we obtained samples from 152 companies to apply to the study.

b. Measurement of Independent ~~V~~variables

Chen et al. (2005) argue that ~~value added intellectual coefficient (VAIC)~~ and its three components, HCE ~~(Human Capital Efficiency)~~, SCE ~~(Structural capital Efficiency)~~, and CEE ~~(Capital Employed Efficiency)~~ represent the independent variables. In order to calculate VAIC, we have to know the amount of HCE, SCE, and CEE. ~~It~~This can be expressed in Formula 1.

$$VAIC = HCE + SCE + CEE \dots\dots\dots Formula 1$$

To measure VAIC ~~s~~, we need value added (~~VA~~) to be calculated. In its simplest form ~~s~~, VA is the difference between output and input. Output represents net sales revenues and input contains all the expenses incurred in earning the sales revenues except labor costs ~~s~~, which are considered to be a value ~~s~~-creating entity (Tan et al., 2008). This VA is also defined as the net value created by firms during the year (Chen et al., 2005) ~~s~~, VA ~~could~~ ~~can~~ be calculated using Formula 2.

$$VA = S - B = NI + T + DP + I + W \dots\dots\dots Formula 2$$

Notes : *S* is sales; *B* is ~~€~~cost of ~~€~~goods ~~S~~sold; ~~-~~NI is net income after tax; *T* is taxes; *DP* is depreciation; *I* is interest expense; and *W* is ~~employee~~ wages and salaries ~~for employee~~.

i. Human Capital Efficiency (HCE)

Human capital (~~HC~~) factors consist of skills, knowledge, productivity, competence, and all ~~the things~~aspects that ~~fit with~~pertain to an employee in the work place. ~~Human capital efficiency (HCE)~~ can be calculated using a calculation developed by Pulic (1998), where HCE is calculated using the

formula ~~value added human capital efficiency (VAHU)~~. VAHU calculations can be seen in Formula 3.

$$\text{VAHU} = \text{VA} / \text{HC} \dots\dots\dots \text{Formula 3}$$

ii. *Structural Capital Efficiency (SCE)*

Structural ~~C~~capital (SC) is ~~one of an~~ elements in ~~intellectual capital IC and~~, it consists of organizational networks, patents, strategy, and brand names. Based on Pulic (1998), we calculated SCE as in Formula 4. Meanwhile, ~~structural capital efficiency (SCE)~~ is calculated using ~~value added structural capital (STVA)~~ as in Formula 5.

$$\text{SC} = \text{VA} - \text{HC} \dots\dots\dots \text{Formula 4}$$

$$\text{STVA} = \text{SC} / \text{VA} \dots\dots\dots \text{Formula 5}$$

~~Structural capital efficiency (SCE)~~ is the dollar of SC within the firm, for every dollar of ~~value added VA~~, and as HCE increases, SCE increases. If the efficiency measures for both HCE and SCE were calculated with VA as the numerator, ~~the~~ logical inconsistency would remain (Pulic, 1998).

iii. *Capital Employed Efficiency (CEE)*

~~Capital Employed Efficiency (CEE)~~ is the efficiency that SCE and HCE fail to capture. Pulic (1998) argues that IC cannot create value on its own, and so it must be combined with capital (physical and financial) employed (CE). CEE shows how much VA is created by a dollar spent on ~~capital employed (CE)~~. We could calculate CE as the total assets minus intangible assets and CEE is defined as ~~value added capital employed (VACA)~~. VACA calculations can be seen in Formula 6.

$$\text{VACA} = \text{VA} / \text{CE} \dots\dots\dots \text{Formula 6}$$

c. **Measurement of Dependent Vvariable**

The risk of stock price crash is the risk of a significant stock price decline ~~in a significant range~~ after the price had soared (Kim and Zhang, 2016). This variable was developed using a model developed by Chen et al. (2017), which can be seen in Formula 7.

$$\text{NCSKEW} = \frac{-[n(n-1)3/2 \sum_{T=1}^n (w_{i,T,t} - \bar{w}_{i,t})^3]}{[(n-1)(n-2)(\sum_{T=1}^n (w_{i,T,t} - \bar{w}_{i,t})^2)^{3/2}} \dots\dots\dots \text{Formula 7}$$

Notes: $w_{i,T,t}$ is the company's weekly specific stock returns for T weeks in year t , $\bar{w}_{i,t}$ is the average weekly return of the company's specific stock for year t and n is the number of weeks for year t . The larger NCSKEW represents a greater negative slope rate of return, which means a greater risk of stock price crashes that can occur.

d. Measurement of Intervening Variable

This paper study uses firm performance as the intervening variable. We use ROE to analyze the firm performance. We calculate this ratio with Formula 8.

$$\text{ROE} = \frac{\text{Earning after tax}}{\text{Equity}} \dots\dots\dots \text{Formula 8}$$

e. Empirical Models

This study uses path analysis that produce two model regressions to test our hypotheses.

Model I

$$\text{ROE} = \alpha + \beta_1 \text{VAHU} + \beta_2 \text{STVA} + \beta_3 \text{VACA} + \beta_4 \text{SIZE} - \mu$$

Model II

$$\text{NCSKEW} = \alpha - \beta_1 \text{STVA} - \beta_2 \text{VACA} - \beta_3 \text{AHU} + \beta_4 \text{SIZE} - \beta_5 \text{ROE} - \mu$$

Notes: ROE is the ratio for measuring firm performance, NCSKEW is the negative coefficient of firm-specific daily returns as a proxy for stock price crash risk, VAHU is value-added human capital, STVA is value-added structural capital value added, VACA is value-added capital employed, and SIZE is firm size as the control variable in this study.

4. Results

a. Normality Test

Table 1 shows that the significance value of Asymp. The Sig (2-tailed) is 0.200. The value is greater than 0.1. Then according to the basis of decision making in the Kolmogorov-Smirnov normality test above, the result can be concluded that the data is normally distributed so that the assumptions or statements of normality in the regression model have been fulfilled for the data above.

Table 1. Normal Probability Test Result

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		152
Normal Parameters ^{a,b}	Mean	0.000
	Std. Deviation	0.924
	Absolute	0.059
Most Extreme Differences	Positive	0.037
	Negative	-0.059
Test Statistic		0.059
Asymp. Sig. (2-tailed)		0.200 ^{c,d}

Notes:

- Test distribution is Normal.
- Calculated from data.
- Lilliefors Significance Correction.
- This is a lower bound of the true significance.

b. Multicollinearity Test

The basis for decision making from the multicollinearity test is ~~done by looking at~~ the value of ~~T~~tolerance (Tol) and ~~variance inflating factor~~ (VIF). Based on the output table, it is known that the tolerance value of each variable is greater than 0.1. While ~~for~~ the VIF value for each variable is less than 10. Then, according to the basis for ~~the~~ multicollinearity test decision making, we can conclude that there are no symptoms of multicollinearity in the regression model. Table 2 shows the results of the multicollinearity test.

Table 2. Multicollinearity Test Results

Model 1	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	-4.074	1.323		-3.079	0.002		
VAHU	-0.062	0.096	-0.103	-0.640	0.523	0.247	4.052
STVA	0.144	0.952	0.025	0.151	0.880	0.236	4.231
VACA	0.958	0.891	0.117	1.076	0.284	0.538	1.860
SIZE	0.123	0.043	0.248	2.857	0.005	0.847	1.181
ROE	-0.271	1.481	-0.021	-0.183	0.855	0.475	2.104

Note: Dependent Variable (NCSKEW)

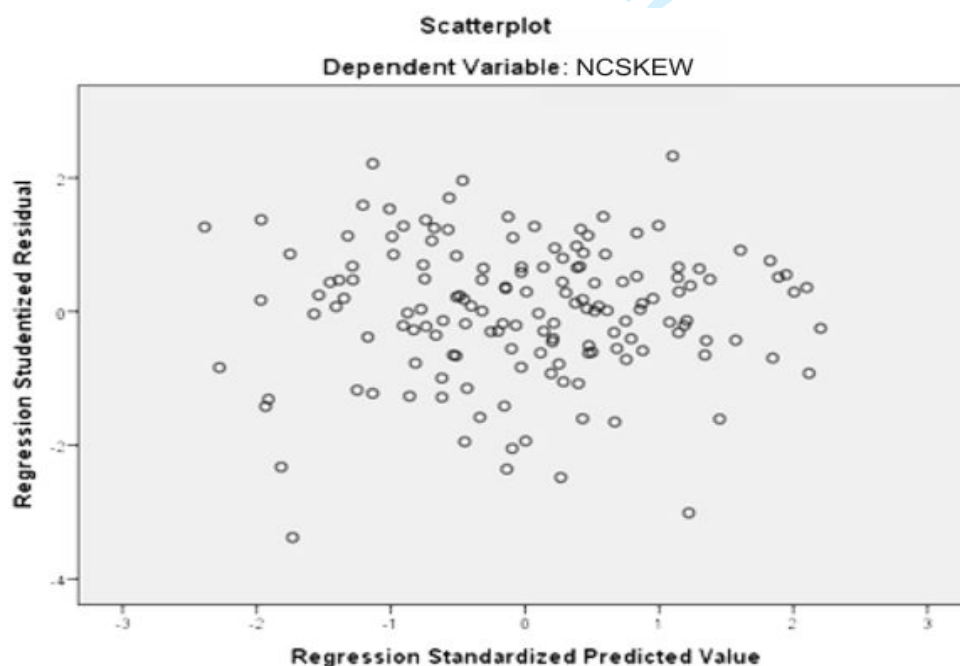
c. Heteroskedasticity Test

Based on Figure 1, we know that data dots spread above and below or around the number of 0. We can then see that the dots are not just clustered just on above or below. The distribution of data points does not form a wavy pattern, widening then narrowing and then widening again. We can also see that the dots do not make any certain pattern. According from to the analyses, we can conclude that there is no heteroscedasticity problem; so that a good and ideal regression model can be fulfilled.

d. Path Analysis

In the Table 3, Model 1 shows that the STVA and VACA coefficients have a significant positive effect on ROE at a significance level of 1% with a significance value of 0.015 and 0.000, respectively. While, based on the Table 2, given that there is no significant relationship between VAHU and ROE at the 1% significance level; so we can conclude that H1(a) is rejected. Based on a beta test, VACA is the variable that have the most influences changes in ROE. The value of Sig. F-statistics shows that at a significance level of 1%, VAHU, VACA, and STVA simultaneously influence on ROE. This result is a strong indicator that there is a relationship between intellectual capital IC and firm performance, thus supporting H1(b) and H1(c). That is, if a firm is able to use its IC more efficiently in one year, this can lead to a performance increase in the same year.

Figure 1. Heteroskedasticity Test Result



In ~~the~~ Table 3, Model 2 shows that all of the components of ~~intellectual capital~~ IC do not have any significant ~~tee~~ relationship with stock price crash risk at ~~the~~ 1% significance level. From ~~table above~~ Table 2 we also know that ROE does not have any significant ~~tee~~ influence on stock price crash risk. Furthermore, we use ~~m~~ Model 1 and ~~m~~ Model 2 ~~to do for~~ path analysis ~~path~~. After ~~getting acquiring~~ the numbers from ~~the table~~ Table 2, we calculated ~~d~~ the indirect effect by multiplying the effect of the IC component with ROE and ~~then~~ ROE with stock price crash risk. Based on ~~the t~~ Table 2 and ~~the~~ path analysis calculation, VAHU has a direct effect on stock price crash risk of 0.103 while the indirect effect of VAHU on stock price crash risk through ROE is 0.000399. STVA has a direct effect on the risk of a stock price crash of 0.025 while STVA has an indirect effect on the risk of a stock price crash of 0.005922. Furthermore, the VACA component has a direct effect of 0.117 and an indirect effect of 0.01264 on the risk of stock price crashes. According to the principle of path analysis, ~~that~~ if the indirect effect is greater than the direct effect, then it means there is a significant relationship in the indirect relationship between variables. We can conclude from the data that VAHU, STVA, and VACA do not have any significant relationship ~~to with~~ stock price crash risk either directly or indirectly through firm performance.

Table 3. The Results of ~~the~~ Regression Model

	Dependent Variable: ROE		Dependent Variable: NCSKEW	
	Predicted Sign	Model 1	Predicted Sign	Model 2
VAHU	+	0.001 (0.005)	-	-0.062 (0.096)
STVA	+	0.128** (0.052)	-	0.144 (0.952)
VACA	+	0.404* (0.037)	-	0.958 (0.891)
SIZE (Control)	+	0.010* (0.002)	-	0.123 (0.043)
ROE (Intervening)			-	-0.271 (1.481)
Constant		-0.340 (0.068)		-4.074 (1.323)
R-square (R ²)		0.525		0.066
Sig. F Stat		0.000*		0.074***
N		152		152

Note: This table presents the correlation coefficient number (β), while the number ~~between~~ ~~within~~ parentheses is the standard error. ~~The~~*, **, and *** ~~signs~~ indicate significance at the levels ~~of~~ 1%, 5%, and 10%, ~~respectively~~.

5. Discussion

Several studies show that ~~intellectual capital (IC)~~ ~~has~~ ~~plays~~ an important role in improving sustainable company performance and business progress (see e.g., Castillo et al., 2019; Lee and Lin, 2019; Oppong and Pattanayak, 2019; Secundo et al., 2020). However, the test results in this study prove that IC has no effect on stock crash risk on the ~~Indonesia Stock Exchange (IDX)~~. In addition, other results show that the company's performance, as represented by ~~return on equity (ROE)~~, also has no effect on stock price crash risk. We find that information inefficiency results in general distrust of stock markets in developing countries (Yang et al., 2019). Information inefficiency is a global problem that always exists in the stock market, ~~even~~ ~~although~~ ~~it is~~ more ~~present~~ ~~prevalent~~ in developing countries than developed countries (Boya, 2019; Bartram and Grinblatt, 2021). Meanwhile, Al-Yahyaee et al. (2020) explain that high liquidity that is not balanced with low volatility will weaken information efficiency in the stock market. This indicates that ~~the a~~ company's financial performance appears to be no longer considered in the share purchase decision.

Investors' optimistic (pessimistic) sentiment towards stock prices seems to dominate ~~its~~ influence on the operation of the stock market. The sentiment index built on social media has been shown to greatly influence the volatility of stock prices (Liang et al., 2020). The optimistic (pessimistic) sentiment of Internet search-based investors ~~is also able to~~ ~~can also~~ influence ~~the~~ premium value in the United States stock market (Teti et al., 2020; Klemola, 2020). Meanwhile, Ni et al. (2019) revealed that the fluctuation of stock prices is more sensitively to the intraday sentiment of individuals. Chau et al. (2016) explain that sentiment-induced buying and selling is an important determinant of stock price variation. Based on explanations from various ~~previous~~ studies, we believe that investors' optimistic (pessimistic) sentiment towards stock price volatility dominates ~~its~~ influence on buying or selling decisions, so that the financial performance aspects of listed companies are obscured in the stock market.

6. Conclusions and Implications

a. Conclusions

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This study examines the effect of ~~intellectual capital~~IC components on stock price crash risk by using firm performance as an intervening variable. This research is a quantitative study using secondary data on annual reports published by the IDX (~~Indonesia Stock Exchange~~) and stock price data published by Yahoo Finance. ~~Intellectual capital~~IC variables are measured by the ~~Value-added Intellectual capital~~(VAIC) method written by Pulic (1998) and stock price crash risk variables are measured by NCSKEW developed by Chen et al. (2017). Data ~~is was~~ processed using the path analysis method to determine the direct effect and indirectly ~~effect~~ from each of the interrelated variables.

Simultaneously, the VAHU, STVA, and VACA variables have a significant relationship to firm performance; ~~but however~~, partially, ~~the~~VAHU does not have a significant effect like STVA and VACA. Capital employed has the biggest influence on firm performance. The results state that the three ~~intellectual capital~~IC variables do not have a significant direct or indirect relationship with stock price crash risk. This result is in line with several previous studies. So far, the optimistic (pessimistic) sentiment of investors regarding the volatility of share prices has obscured aspects of the financial performance of listed companies. ~~Finally, w~~We conclude that investor sentiment has dominated ~~its~~influence on stock price crash risk, so that the IC aspect has become obscured.

b. Implications

So far, research on ~~intellectual capital~~(IC) has been discussed in 700 articles written by leading authors at various universities (Dubic et al., 2020). However, there is no research that discusses IC disclosure on the stock market. This research provides an understanding that the stock market is driven by the optimistic (pessimistic) sentiment of investors. This fact implies that ~~intellectual capital~~IC disclosure, which is proxied by the company's financial performance, becomes obscured, while ~~I~~investors prefer to analyze the volatility of stock prices as a parameter in buying or selling decisions. In ~~further future~~ research, it is necessary to modify the measurement of the intellectual property associated with knowledge of stock price volatility.

Basically, the ability and knowledge ~~infor~~ compiling a stock portfolio that reveals specific information about the company is needed to increase shareholders' confidence (Chance and Yang, 2007). Meanwhile, specific information about the company will produce ~~the~~idiosyncratic volatility, which is the best predictor of stock returns and ~~it~~is proven to have a positive impact on investors' heterogeneous beliefs (Kongsilp and Mateus, 2017; He et al., 2020). -Zhan (2019) argues that there ~~is was~~ a positive relationship

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3 between synchronization of stock price movements and stronger stock market volatility
4 for emerging markets during the financial crisis from June 2007 to December 2008. As
5 regards practical implicationsapplication, intellectual capitalIC represents the knowledge
6 and ability in-thefor preparingation a of a stock portfolio which-that contains company-
7 specific information, which is needed in-order to minimize stock price crash risk.
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Manuscript Before Revision:

Does Intellectual Capital Have Any Influence On Stock Price Crash Risk?

ABSTRACT

Purpose

This paper aims to explore the influence between intellectual capital and the risk of stock price crashes by using company performance as an intervening variable.

Design / methodology / approach

This study empirically analyzes the impact of efficiency of intellectual capital on stock price crash risk using 152 sample of companies listed on Indonesia Stock Exchange (IDX) in the period of 2018. To test the research hypotheses, regression analysis and path analysis are applied. In addition, the researchers added exploration to several studies to strengthen the results of this study.

Findings

Our findings indicate that investors' optimistic (pessimistic) sentiment regarding stock price volatility has obscured aspects of the financial performance of listed companies. This finding implies that investor sentiment has dominated its influence on stock price crash risk, so that the aspects of intellectual capital are obscured.

Originality / value

This research provides new information that intellectual capital disclosure in the stock market needs to involve a knowledge of the volatility of stock prices in order to reveal stock price crash risk.

Key word: Intellectual capital, stock price crash risk, firm performance, disclosure, social capital, corporate governance convergence.

1. Introduction

Companies in modern era nowadays are being replaced with a knowledge-based, fast-changing and technologically intensive economy, including in Indonesia. Most of companies use technology to enhance the efficiency on companies activity and depress expense incurred. In this modern economy, for many firms, the most important asset must be had for each company is intellectual capital. It has been different from previous era that physical capital was

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3 the power of the companies. Previous studies have shown that company value and capability
4 are often based on the intangible intellectual capital (IC) that it possesses (Berzkalne and
5 Zelgalve, 2014; Huang and Huang, 2020). Liu and Jiang (2020) have also proven that IC has a
6 positive impact on business progress such as increasing brand equity and social networking. In
7 addition, IC also provides various positive benefits for companies such as employees' job
8 satisfaction and retention (Longo and Mura, 2011), increasing business innovation (Ornek and
9 Ayas, 2015; Adesina, 2019), increasing the relevance of accounting information (Hayati et al.,
10 2015), and cost efficiency (Martinez et al., 2020). In this study, we would intuitively expect
11 that the application of intellectual capital in the company is able to reduce risk on stock price
12 crashes.

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21 The purpose of this study is to find out relationship between efficiency of intellectual
22 capital and stock price crash risk in the future by using firm performance as mediating variable.
23 Clarke et al. (2011) stated that Intellectual capital (IC) has a positive influence on firm
24 performance which is characterized by three components of IC efficiency, such as: HCE
25 (Human Capital Efficiency), SCE (Structural capital Efficiency), and CEE (Capital Employed
26 Efficiency). It could be a good signal for companies's shareholder, because a company with
27 good efficiency on IC means that they have been using the resource for its best. Several studies
28 have proven that IC reflects good competence, skills and knowledge that can improve financial
29 performance and increase stock returns (Lentjushenkova and Lapina, 2014; Zhou and Pan,
30 2018). Thus, IC represents good competency, skills and knowledge so that the company is able
31 to disclose information in accordance with the needs of shareholders.

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40 Based on a Taiwanese study by Chen et al. (2005) this study uses the quantitative measure,
41 value added intellectual coefficient (VAIC) developed by Pulic (1998) as a measure of IC
42 efficiency. Data is collected for Indonesia Stock Exchange (IDX) listed firms in 2018. We
43 analyze using path analysis for knowing whether there are any relation between intellectual
44 capital, firm performance, and stock price crash risk. Prior VAIC studies have investigated the
45 direct relationship between IC and performance, but there is no investigate about relationship
46 between IC and Stock Price Crash Risk. Finally, this study contributes to the literature on the
47 relation between Intellectual Capital and stock price crashes.

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54 This paper proceeds as follows. Section 2 reviews the relevant literature and develops our
55 hypotheses. Section 3 describes the data and research design. Section 4 presents the main
56 empirical results. Section 5 discussions. Section 6 concludes the paper.

57 58 59 60 **2. Literature Review and Hypothesis**

a. Strengths and Weaknesses of Measuring Intellectual Capital

Basically, intellectual capital (IC) is measured by various elements such as human capital, physical capital, structural capital, social capital, and relational capital. However, several previous studies have shown that there are several drawbacks to IC measurement. Adesina (2019) has measured IC with three components, namely human capital, physical capital and structural capital, however only human capital is positively related to all the three efficiency (technical, allocative, and cost). Castillo et al. (2019) proved that capabilities of human resources are relevant for these organizations, as well as the internal processes, and the relationships with customers. On the issue of environmental protection, Yong et al. (2019) revealed that green human capital and green relational capital were influenced by green human resource management, but green structural capital was not significantly related to green human resource management. Yusoff et al. (2019) also revealed that green human capital does not have a positive relationship with business sustainability.

Although there are various weaknesses of intellectual capital (IC), its advantages have been demonstrated in several previous studies. Barrena-Martínez et al. (2020) proved that the three components of IC (relational capital, human capital, and structural capital) positively affect open innovation (OI) performance. Salvi et al. (2020) suggested a significantly positive relationship between all three components of IC (structural, human, social and relationship) and firm value, generating multiple implications for reporting entities, investors, regulators, and managers. Mahmood and Mubarik (2020) showed that specific policies aimed at developing IC of a firm, which in turn can enable a firm to maintain a balance between innovation and market exploitation activities. Yusliza et al. (2020) revealed that the contribution of green intellectual capital as an intangible resource for organizations in achieving sustainable performance and a competitive advantage for future researchers. Dubic et al. (2021) revealed that the intellectual agility of employees positively influences the innovativeness of micro and small businesses, but this effect is strongly mediated through entrepreneurial leadership. It means that human capital has an important role in business innovation. This study will explore the efficiency of intellectual capital using three measures (Human capital, Structural capital and Capital employed).

b. The determinant of Information Efficiency

Internationally, the efficiency of share price information is influenced by investors' understanding of the long-term relationship between stock market volatility and the

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3 uncertainty of international economic policy (Belcaid and Ghini, 2019). A study in France
4 also shows that stock exchanges find it difficult to maintain the efficiency of stock
5 information during global macroeconomic events (Boya, 2019). Hu et al. (2020) revealed
6 that board reforms reduce crash risk by improving financial transparency and enhancing
7 investment efficiency. In Indonesia, sub-optimal financial positions play a role in the
8 corporate share repurchases decisions, while the enactment of the regulations has a
9 significant effect on firms' undertaking share repurchases programs (Moin et al., 2020). In
10 China, regulations that promote the efficiency of share prices also have an important role
11 in controlling stock prices (He and Fang 2019). Thus, external factors, namely the ability
12 of investors to analyze stock price volatility, macroeconomic events, financial
13 transparency, and Government regulations play a greater role in controlling the risk of
14 stock price crashes, while IC does not have an important role in controlling stock prices.

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24 Luo and Zang (2020) have proven that economic policy uncertainty is significantly
25 and positively associated with aggregated stock price crash risk at the market level.
26 Meanwhile, Wen et al. (2019) revealed that higher quality auditing can mitigate the impact
27 of retail investor attention on firms' future crash risk. Lee et al. (2020) revealed that a
28 supplier firm with a concentrated customer base experiences higher crash risk is attenuated
29 by lower switching costs and is accentuated when the degree of information asymmetry is
30 high. Another study shows that Chinese investor sentiment (CIS) also affects stock price
31 volatility (Li, 2019). Likewise Ma et al. (2020) suggests that exposure to an undiversified
32 corporate customer base can have a negative bearing on a firm's crash risk. The fifth studies
33 indicate that economic policy, investor sentiment, and audit quality have a significant
34 effect on the risk of stock price crashes.

35 36 37 38 39 40 41 42 43 44 45 **c. Intellectual Capital Efficiency (ICE)**

46 Intellectual Capital (IC) represents a company's intangible knowledge assets in the
47 form of information and knowledge resources (Kitts et al., 2001). Several studies have
48 revealed that Intellectual Capital efficiency (ICE) can improve the performance of
49 companies (see e.g. Clarke et al., 2011; Gogan et al., 2016; Asiaei and Jusoh, 2017;
50 Mustapha and Abdelheq, 2018; McDowell, 2018; Sardo et al., 2018; Huang and Huang,
51 2020). Investors are very interested in buying shares when the company has implemented
52 ICE. As Lin et al. (2015); Ozkan et al. (2017) shows that the greater of ICE, the more it
53 reduces stock price crashes.
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3 Jerzak (2015) shows that human capital constitutes inborn skills and acquired skills,
4 which if invested efficiently in can be strengthen the company's position and gains a
5 competitive advantage. It means, the efficiency of human capital (HCE) represents the
6 selection of superior intellectual capital (IC) to be employed in the company's business.
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8 Meanwhile, Asiaei et al. (2018) has proven that there was a significant positive relationship
9 between HCE levels and the use of a balanced performance measurement system.
10 Dženopoljac et al. (2016) also revealed that HCE has a direct positive impact on the
11 financial performance of companies. Therefore, Companies that have a higher HCE are
12 more likely to have a higher ROE, a higher ROA, a higher ROIC and tend to be more
13 profitable.
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17 In general, various strategies have been carried out by many companies to regulate
18 structural capital in order to optimize overall business performance. Intellectual capital
19 (IC) has a central role in determining the structural capital model used in companies.
20 Gogan et al. (2015) revealed that determining the right model in structural capital needs to
21 be done in order to obtain competitive advantages in the market. This study indicates that
22 IC plays an important role in determining efficient structural capital so that the
23 organization's desire to be competitive in the market can be achieved. In addition, Ciprian
24 et al. (2012) explained that IC is not sufficient to determine the accuracy of structural
25 capital sizes, it is necessary to complement positions on intangible assets that can help to
26 determine company policies and decisions.
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30 Andersson et al. (2006) revealed that shareholder demand is a higher return on capital
31 Employed (ROCE). It means, capital employed efficiency (CEE) represents intellectual
32 capital (IC) which is able to perform accurate calculations in capital investment in order
33 to obtain optimal returns. As Mørch et al. (2017) have explained that CEE plays an
34 important role in making investment decisions because accurate calculations are needed
35 regarding the fitness of operations and financial performance of investments. Thus,
36 Intellectual Capital efficiency (ICE) has an important role in investment decisions.
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39 40 41 **d. Intellectual Capital Efficiency (ICE) Measurement Model on Stock Price Risk**

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43 Basically, the efficiency of intellectual capital (ICE) plays a role in the application of
44 HCE (Human Capital Efficiency), SCE (Structural capital Efficiency), and CEE (Capital
45 Employed Efficiency). This study will examine the effect of ICE on stock price risk. In
46 the testing process, we combine the measurement model of the performance of intellectual
47 potential in knowledge economy developed by (Pulic, 1998) and the calculation of the
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3 negative coefficient of firm-specific daily returns (NCSKEW) developed by (Chen et al.,
4 2017). ICE is calculated using three components, namely value added human capital
5 efficiency (VAHU), value added structural capital (STVA), and value added capital
6 employed (VACA). Meanwhile, stock price risk is calculated using NCSKEW. More
7 detailed calculations are explained in the method section.
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12 Several studies have used this model which shows mixed results as well. Hejazi et al.
13 (2016) found that increasing intellectual capital (IC) should increase firm value.
14 Meanwhile, Kamukama and Sulait (2017) showed a positive and significant relationship
15 between human capital, relational capital, structural capital on competitive advantage.
16 Another study shows that the three sub-constructions of IC together have a positive and
17 substantive relationship with business performance (Huang and Liu, 2005; Sharabati et al.,
18 2010). The three studies indicate that Innovation and creation play a dominant role in
19 describing the latent constructs of IC. Based on discussion above, hypothesis (H1) is given
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25 H1a : Human capital efficiency is positively related to firm performance

26 H1b : Structural capital efficiency is positively related to firm performance

27 H1c : Capital employed efficiency is positively related to firm performance

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31 Chen et al. (2005) have confirmed that investors place higher value on companies with
32 better intellectual capital efficiency. Furthermore, Song (2015) has shown that
33 management tends to hide some negative information and suddenly release negative
34 information in the future if the company has a higher level of accounting disclosure of
35 intellectual capital. Dong and Zhang (2016) have also shown that environmental control,
36 information and communication, and monitoring components significantly reduce the risk
37 of accidents while risk assessment and control activity components do not show any
38 relation to the risk of a stock price crash. Ben-Nasr and Ghouma (2018) explained that
39 employee welfare also factors that contribute to the risk of stock price crashes. Further
40 analysis shows a strong corporate governance mechanism can reduce the risk of rising
41 stock price crashes in less unionized companies and there is a negative impact of union
42 strength on the risk of stock price crashes (Liao and Ouyang, 2017). Meanwhile,
43 Anifowose et al. (2017) showed a positive relationship between the intellectual capital as
44 a whole and the market capitalization value of the company. Some of these studies imply
45 that IC can reduce the risk of stock investment. Based on discussion above, hypothesis
46 (H2) is given.
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58 H2a : Human capital efficiency is negatively related to stock price crash risk

59 H2b : Structural capital efficiency is negatively related to stock price crash risk
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3 H2c : Capital employed efficiency is negatively related to stock price crash risk
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7 Bennett et al. (2020) has explained that management, directly or indirectly, learns
8 from its firm's stock price, so that more informative stock prices should make the firm
9 more productive. It means, informativeness of stock prices indicates that the company's
10 performance is better. As Martani et al. (2009) mentioned in their research that the
11 company's financial performance is shown by the profitability ratio and the market value
12 ratio significantly influences returns in the company. Based on this research, the following
13 hypothesis (H3) can be formulated as
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19 H3 : firm performance is negatively related to stock price crash risk
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22 Intellectual capital (IC) owned by the company is expected to create added value so
23 that it can improve company performance. Good firm performance is one of the signals
24 that will be considered by investors in making investment decisions. Cenciarelli et al.
25 (2018) in her research showed that bankruptcy prediction models that include IC have
26 superior predictive capabilities over standard models. Meanwhile, stock price crashes are
27 very likely to occur if the organization's internal controls are ineffective. The effectiveness
28 of internal control depends on research and development (RandD) conducted by the
29 company. Zhou and Pan (2018) explained that companies that will develop Intellectual
30 capital require capital for RandD so they are faced with financing constraints. It means, IC
31 efficiency supports the effectiveness of internal control. In addition, the level of social trust
32 also plays a role in the risk of stock price crashes. According to Cao et al. (2016), social
33 trust, as a socioeconomic factor, is negatively correlated with accident risk. There is a fact
34 that companies in areas of high social trust tend to hide bad news. Management tends to
35 disclose more related information to get investor. Thus, intellectual capital efficiency is
36 needed as a corporate strategy to increase information transparency and financial
37 performance which will manifest towards increasing investor confidence. Based on
38 discussion above, we can hypothesize (H4) that
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51 H4a: Human capital efficiency is negatively related to stock price crash risk by using
52 firm performance as intervening variable
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54 H4b: Structural capital efficiency is negatively related to stock price crash risk by
55 using firm performance as intervening variable
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58 H4c: Capital employed efficiency is negatively related to stock price crash risk by
59 using firm performance as intervening variable
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3. Research Design

a. Sample

This study uses companies from various sectors as research objects as the sample for the research. The sample collected from Indonesia Stock Exchange (IDX) annual report data in 2018. We also obtain weekly stock data from Yahoo Finance. We then use the following selection criteria: First, similar to Khan and Watts (2009), we require that total assets and book, values of equity for each firm be greater than zero. Second, to be included in the sample, a firm must have at least 20 weekly returns for each fiscal year. We also excluded incomplete company data and financial information. Finally, we obtained samples from 152 companies to apply to the study.

b. Measurement of Independent variables

Chen et al. (2005) argue that value added intellectual coefficient (VAIC) and its three components, HCE (Human Capital Efficiency), SCE (Structural capital Efficiency), and CEE (Capital Employed Efficiency) represent the independent variables. In order to calculate VAIC, we have to know the amount of HCE, SCE, and CEE. It can be expressed in Formula 1.

$$VAIC = HCE + SCE + CEE \dots\dots\dots Formula 1$$

To measure VAIC we need value added to be calculated. In its simplest form VA is the difference between output and input. Output represents net sales revenues and input contains all the expenses incurred in earning the sales revenues except labor costs which are considered to be a value creating entity (Tan et al., 2008). This VA is also defined as the net value created by firms during the year (Chen et al., 2005), VA could be calculated using Formula 2.

$$VA = S - B = NI + T + DP + I + W \dots\dots\dots Formula 2$$

Notes : S is sales; B is Cost of Goods Sold; NI is net income after tax; T is taxes; DP is depreciation; I is interest expense; and W is wages and salaries for employee.

i. Human Capital Efficiency (HCE)

Human capital (HC) factors consist of skills, knowledge, productivity, competence, and all the things that fit with employee in the work place. Human capital efficiency (HCE) can be calculated using a calculation developed by

Pulic (1998), where HCE is calculated using the formula value added human capital efficiency (VAHU). VAHU calculations can be seen in Formula 3.

$$\text{VAHU} = \text{VA} / \text{HC} \dots \text{Formula 3}$$

ii. *Structural Capital Efficiency (SCE)*

Structural Capital (SC) is one of elements in intellectual capital, it consists of organizational networks, patents, strategy, and brand names. Based on Pulic (1998), we calculated SC as in Formula 4. Meanwhile, structural capital efficiency (SCE) is calculated using value added structural capital (STVA) as in Formula 5.

$$\text{SC} = \text{VA} - \text{HC} \dots \text{Formula 4}$$

$$\text{STVA} = \text{SC} / \text{VA} \dots \text{Formula 5}$$

Structural capital efficiency (SCE) is the dollar of SC within the firm, for every dollar of value added, and as HCE increases, SCE increases. If the efficiency measures for both HCE and SCE were calculated with VA as the numerator, the logical inconsistency would remain (Pulic, 1998).

iii. *Capital Employed Efficiency (CEE)*

Capital Employed Efficiency (CEE) is the efficiency that SCE and HCE fail to capture. Pulic (1998) argues that IC cannot create value on its own, and so it must be combined with capital (physical and financial) employed (CE). CEE shows how much VA is created by a dollar spent on capital employed (CE). We could calculate CE as the total assets minus intangible assets and CEE is defined as value added capital employed (VACA). VACA calculations can be seen in Formula 6.

$$\text{VACA} = \text{VA} / \text{CE} \dots \text{Formula 6}$$

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c. Measurement of Dependent variable

The risk of stock price crash is the risk of a stock price decline in a significant range after the price had soared (Kim and Zhang, 2016). This variable was developed using a model developed by Chen et al. (2017) which can be seen in Formula 7.

$$\text{NCSKEW} = \frac{-[n(n-1)3/2 \sum_{T=1}^n (w_{i,T,t} - \bar{w}_{i,t})^3]}{[(n-1)(n-2)(\sum_{T=1}^n (w_{i,T,t} - \bar{w}_{i,t})^2)^{3/2}]} \dots \text{Formula 7}$$

Notes: $w_{i,T,t}$ is the company's weekly specific stock returns for T weeks in year t , $\bar{w}_{i,t}$ is the average weekly return of the company's specific stock for year t and n is the

number of weeks for year t . The larger $NCSKEW$ represents a greater negative slope rate of return, which means a greater risk of stock price crashes that can occur.

d. Measurement of Intervening variable

This paper uses firm performance as intervening variable. We use ROE to analyze the firm performance. We calculate this ratio with formula 8.

$$ROE = \frac{\text{Earning after tax}}{\text{Equity}} \dots\dots\dots \text{Formula 8}$$

e. Empirical Models

This study uses path analysis that produce two model regression to test our hypotheses.

Model I

$$ROE = \alpha + \beta_1 VAHU + \beta_2 STVA + \beta_3 VACA + \beta_4 SIZE - \mu$$

Model II

$$NCSKEW = \alpha - \beta_1 STVA - \beta_2 VACA - \beta_3 AHU + \beta_4 SIZE - \beta_5 ROE - \mu$$

Notes: ROE is ratio for measuring firm performance, $NCSKEW$ is the negative coefficient of firm-specific daily returns as a proxy of stock price crash risk, $VAHU$ is value added human capital, $STVA$ is structural capital value added, $VACA$ is value added capital employed, and $SIZE$ is firm size as control variable in this study.

4. Results

a. Normality Test

Table 1 show that the significance value of Asymp. The Sig (2-tailed) is 0.200. The value is greater than 0.1. Then according to the basis of decision making in the Kolmogorov-Smirnov normality test above, the result can be concluded that the data is normally distributed so that the assumptions or statements of normality in the regression model have been fulfilled for data above.

Table1. Normal Probability Test Result

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		152
Normal Parameters ^{a,b}	Mean	0.000
	Std. Deviation	0.924
	Absolute	0.059
Most Extreme Differences	Positive	0.037
	Negative	-0.059

Test Statistic	0.059
Asymp. Sig. (2-tailed)	0.200 ^{c,d}

Notes:

- a. Test distribution is Normal.
- b. Calculated from data.
- c. Lilliefors Significance Correction.
- d. This is a lower bound of the true significance.

b. Multicollinearity Test

The basis for decision making from the multicollinearity test is done by looking at the value of Tolerance and VIF. Based on the output table, it is known that the tolerance value of each variable is greater than 0.1. While for the VIF value for each variable is less than 10. Then according to the basis for multicollinearity test decision making, we can conclude that there are no symptoms of multicollinearity in the regression model. Table 2 shows the results of the multicollinearity test.

Table 2. Multicollinearity Test Results

Model 1	Unstandardized		Standardized		t	Sig.	Collinearity	
	Coefficients		Coefficients				Statistics	
	B	Std. Error	Beta				Tolerance	VIF
(Constant)	-4.074	1.323			-3.079	0.002		
VAHU	-0.062	0.096	-0.103		-0.640	0.523	0.247	4.052
STVA	0.144	0.952	0.025		0.151	0.880	0.236	4.231
VACA	0.958	0.891	0.117		1.076	0.284	0.538	1.860
SIZE	0.123	0.043	0.248		2.857	0.005	0.847	1.181
ROE	-0.271	1.481	-0.021		-0.183	0.855	0.475	2.104

Note: Dependent Variable (NCSKEW)

c. Heteroskedasticity Test

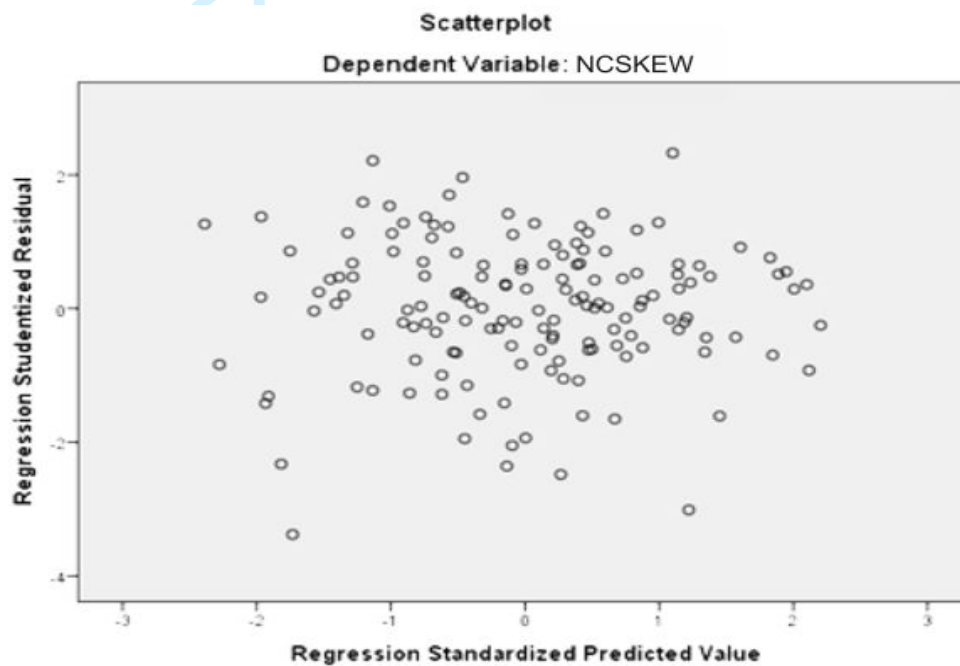
Based on Figure 1, we know that data dots spread above and below or around the number of 0. Then we can see that dots are not clustered just on above or below. The distribution of data points does not form a wavy pattern widened then narrowed and widened again. We also can see that the dots do not make any certain pattern. According from the analyses, we can conclude that there is no heteroscedasticity problem so that a good and ideal regression model can be fulfilled.

d. Path Analysis

In the Table 3, Model 1 shows that the STVA and VACA coefficients have a significant positive effect on ROE at a significance level of 1% with a significance value

of 0.015 and 0,000, respectively. While based on the table given that there is no significant relationship between VAHU and ROE at the 1% significance level, so we can conclude that H1(a) is rejected. Based on a beta test, VACA is variable that have the most influences changes in ROE. The value of Sig. F-statistics show that at a significance level of 1%, VAHU, VACA, and STVA simultaneously influence on ROE. This result is a strong indicator that there is a relationship between intellectual capital and firm performance, thus supporting H1(b) and H1(c). That is, if a firm is able to use its IC more efficiently in one year, this can lead to a performance increase in the same year.

Figure 1. Heteroskedasticity Test Result



In the Table 3, Model 2 shows that all of the components of intellectual capital do not have any significance relationship with stock price crash risk at 1% significance level. From table above we also know that ROE does not have any significance influence on stock price crash risk. Furthermore, we use model 1 and model 2 to do analysis path. After getting the numbers from the table, we calculate the indirect effect by multiplying the effect of the IC component with ROE and ROE with stock price crash risk. Based on the table and path analysis calculation, VAHU has a direct effect on stock price crash risk of 0.103 while the indirect effect of VAHU on stock price crash risk through ROE is 0,000399. STVA has a direct effect on the risk of a stock price crash of 0.025 while STVA has an indirect effect on the risk of a stock price crash of 0.005922. Furthermore, the VACA component has a direct effect of 0.117 and an indirect effect of 0.01264 on the risk

of stock price crashes. According to the principle of path analysis that if the indirect effect is greater than the direct effect then it means there is a significant relationship in the indirect relationship between variables. We can conclude from the data that VAHU, STVA, and VACA do not have any significant relationship to stock price crash risk either directly or indirectly through firm performance.

Table 3. The Results of Regression Model

	Dependent Variable: ROE		Dependent Variable: NCSKEW	
	Predicted Sign	Model 1	Predicted Sign	Model 2
VAHU	+	0.001 (0.005)	-	-0.062 (0.096)
STVA	+	0.128** (0.052)	-	0.144 (0.952)
VACA	+	0.404* (0.037)	-	0.958 (0.891)
SIZE (Control)	+	0.010* (0.002)	-	0.123 (0.043)
ROE (Intervening)			-	-0.271 (1.481)
Constant		-0.340 (0.068)		-4.074 (1.323)
R-square (R ²)		0.525		0.066
Sig. F Stat		0.000*		0.074***
N		152		152

Note: This table presents the correlation coefficient number (β), while the number between parentheses is the standard error. The *, **, and *** signs indicate significance at the levels of 1%, 5%, and 10%.

5. Discussion

Several studies show that intellectual capital (IC) has an important role in improving sustainable company performance and business progress (see e.g. Castillo et al., 2019; Lee and Lin, 2019; Oppong and Pattanayak, 2019; Secundo et al., 2020). However, the test results in this study prove that IC has no effect on stock crash risk on the Indonesia Stock Exchange (IDX). In addition, other results show that the company's performance as represented by return on equity (ROE) also has no effect on stock price crash risk. We find that information inefficiency results in general distrust of stock markets in developing countries (Yang et al., 2019). Information inefficiency is a global problem that always exists in the stock market, even

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3 though it is more present in developing countries than developed countries (Boya, 2019;
4 Bartram and Grinblatt, 2021). Meanwhile, Al-Yahyaee et al. (2020) explain that high liquidity
5 that is not balanced with low volatility will weaken information efficiency in the stock market.
6 This indicates that the company's financial performance appears to be no longer considered in
7 the share purchase decision.
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11 Investors' optimistic (pessimistic) sentiment towards stock prices seems to dominate its
12 influence on the operation of the stock market. The sentiment index built on social media has
13 been shown to greatly influence the volatility of stock prices (Liang et al., 2020). The optimistic
14 (pessimistic) sentiment of Internet search-based investors is also able to influence the premium
15 value in the United States stock market (Teti et al. 2020; Klemola, 2020). Meanwhile, Ni et al.
16 (2019) revealed that the fluctuation of stock prices is more sensitively to the intraday sentiment
17 of individuals. Chau et al. (2016) explain that sentiment-induced buying and selling is an
18 important determinant of stock price variation. Based on explanations from various previous
19 studies, we believe that investors' optimistic (pessimistic) sentiment towards stock price
20 volatility dominates its influence on buying or selling decisions, so that the financial
21 performance aspects of listed companies are obscured in the stock market.
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32 **6. Conclusions and Implications**

33 a. Conclusions

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35 This study examines the effect of intellectual capital components on stock price crash
36 risk by using firm performance as an intervening variable. This research is a quantitative
37 study using secondary data on annual reports published by the IDX (Indonesia Stock
38 Exchange) and stock price data published by Yahoo Finance. Intellectual capital variables
39 are measured by the Value added Intellectual capital (VAIC) method written by Pulic
40 (1998) and stock price crash risk variables are measured by NCSKEW developed by Chen
41 et al. (2017). Data is processed using the path analysis method to determine the direct
42 effect and indirectly from each of the interrelated variables.
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49 Simultaneously, the VAHU, STVA, and VACA variables have a significant
50 relationship to firm performance but partially the VAHU does not have a significant effect
51 like STVA and VACA. Capital employed has the biggest influence on firm performance.
52 The results state that the three intellectual capital variables do not have a significant direct
53 or indirect relationship with stock price crash risk. This result is in line with several
54 previous studies. So far, the optimistic (pessimistic) sentiment of investors regarding the
55 volatility of share prices has obscured aspects of the financial performance of listed
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3 companies. Finally, we conclude that investor sentiment has dominated its influence on
4 stock price crash risk, so that the IC aspect has become obscured.

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7 b. Implications

8 So far, research on intellectual capital (IC) has been discussed in 700 articles written
9 by leading authors at various universities (Dubic et al., 2020). However, there is no
10 research that discusses IC disclosure on the stock market. This research provides an
11 understanding that the stock market is driven by the optimistic (pessimistic) sentiment of
12 investors. This fact implies that intellectual capital disclosure, which is proxied by the
13 company's financial performance becomes obscured, while Investors prefer to analyze the
14 volatility of stock prices as a parameter in buying or selling decisions. In further research,
15 it is necessary to modify the measurement of the intellectual property associated with
16 knowledge of stock price volatility.
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Does intellectual capital have any influence on stock price crash risk?

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Received 18 September 2020

Revised 5 January 2021

1 April 2021

Accepted 10 May 2021

Abstract

Purpose – This paper explores the influence between intellectual capital (IC) and the risk of stock price crashes by using company performance as an intervening variable.

Design/methodology/approach – This study empirically analyzes the impact of the efficiency of IC on stock price crash risk using a sample size of 152 companies listed on the Indonesia Stock Exchange (IDX) during 2018. To test the research hypotheses, regression analysis and path analysis were applied. In addition, the researchers added exploration to several studies to strengthen the results of this study.

Findings – This study's findings indicate that investors' optimistic (pessimistic) sentiment regarding stock price volatility has obscured aspects of the financial performance of listed companies. This finding implies that investor sentiment has dominated influence on stock price crash risk so that the aspects of IC are obscured.

Originality/value – This research provides new information that IC disclosure in the stock market needs to include knowledge of the volatility of stock prices in order to reveal stock price crash risk.

Keywords Intellectual capital, Stock price crash risk, Firm performance, Disclosure, Social capital, Corporate governance convergence

Paper type Research paper

1. Introduction

Companies nowadays are being replaced with a knowledge-based, fast-changing and technology-intensive economy, including in Indonesia. Most companies use technology to enhance the efficiency of company activities and depress expenses incurred. In this modern economy, for many firms, the most important and essential asset is intellectual capital (IC), in sharp contrast to times when physical capital was the power of companies. Previous studies have shown that company value and capability are often based on the intangible IC that it possesses (Berzkalne and Zelgalve, 2014; Huang and Huang, 2020). Liu and Jiang (2020) have also proven that IC has a positive impact on business progress, such as increasing brand equity and social networking. In addition, IC provides various positive benefits for companies such as employees' job satisfaction and retention (Longo and Mura, 2011), increasing business innovation (Ornek and Ayas, 2015; Adesina, 2019), increasing the relevance of accounting information (Hayati *et al.*, 2015) and cost efficiency (Martinez *et al.*, 2020). In this study, we propose that the application of IC in the company is expected to reduce the risk on stock price crashes.

The purpose of this study is to find out the relationship between efficiency of IC and stock price crash risk in the future by using firm performance as the mediating variable. Clarke *et al.* (2011) stated that IC has a positive influence on firm performance, which is characterized by three components of IC efficiency (ICE): human capital efficiency (HCE), structural capital efficiency (SCE) and capital employed efficiency (CEE). These factors could be a good indicator for company shareholders because a company with good ICE indicates that they have been using their resources efficiently. Several studies have proven that IC reflects good



competence, skills and knowledge, which can improve financial performance and increase stock returns (Lentjushenkova and Lapina, 2014; Zhou and Pan, 2018). Thus, the company can disclose information in accordance with the needs of the shareholders.

Based on a Taiwanese study by Chen *et al.* (2005), this study uses the quantitative measure, value-added intellectual coefficient (VAIC), developed by Pulic (1998) as a measure of ICE. Data are collected for firms listed on the Indonesia Stock Exchange (IDX) in 2018. We used path analysis to determine whether there is any relation between IC, firm performance and stock price crash risk. Prior VAIC studies have investigated the direct relationship between IC and performance, but there is no research on the relationship between IC and stock price crash risk. This study contributes to the literature by bridging this gap in the knowledge, that is, the relationship between IC and stock price crashes.

This paper proceeds as follows. Section 2 reviews the relevant literature and develops our hypotheses. Section 3 describes the data and research design. Section 4 presents the main empirical results. Section 5 discusses the findings. Section 6 concludes the paper.

2. Literature review and hypothesis

2.1 Strengths and weaknesses of measuring intellectual capital

Basically, IC is measured by various elements such as human capital, physical capital, structural capital, social capital and relational capital. However, previous studies have shown that there are several drawbacks to IC measurement. Adesina (2019) measured IC with three components, namely human capital, physical capital and structural capital; however, only human capital is positively related to all the three efficiencies (technical, allocative and cost). Castillo *et al.* (2019) proved that capabilities of human resources are relevant for these organizations, as well as the internal processes and relationships with customers. On the issue of environmental protection, Yong *et al.* (2019) revealed that green human capital and green relational capital were influenced by green human resource management, but green structural capital was not significantly related to green human resource management. Yusoff *et al.* (2019) also revealed that green human capital does not have a positive relationship with business sustainability.

Although IC possesses weaknesses, its advantages, demonstrated in previous studies, outweigh them. Barrena-Martínez *et al.* (2020) proved that the three components of IC (relational capital, human capital and structural capital) positively affect open innovation performance. Salvi *et al.* (2020) suggested a significantly positive relationship between all three components of IC and firm value, generating multiple implications for reporting entities, investors, regulators and managers. Mahmood and Mubarik (2020) showed that specific policies aimed at developing the IC of a firm, which in turn can enable a firm to maintain a balance between innovation and market exploitation activities. Yusliza *et al.* (2020) indicated the contribution of green IC to be an intangible resource for organizations in achieving sustainable performance, providing a competitive advantage for future researchers. Dubic *et al.* (2021) revealed that the intellectual agility of employees positively influences the innovativeness of micro and small businesses, but this effect is strongly mediated through entrepreneurial leadership, meaning that human capital has an important role in business innovation. This study will explore the efficiency of IC using three measures (human capital, structural capital and capital employed).

2.2 The determinant of information efficiency

Internationally, the efficiency of share price information is influenced by investors' understanding of the long-term relationship between stock market volatility and the uncertainty of international economic policy (Belcaid and Ghini, 2019). A study in France also

shows that stock exchanges find it difficult to maintain the efficiency of stock information during global macroeconomic events (Boya, 2019). Hu *et al.* (2020) revealed that board reforms reduce crash risk by improving financial transparency and enhancing investment efficiency. In Indonesia, sub-optimal financial positions play a role in corporate share repurchase decisions, while the enactment of the regulations has a significant effect on firms undertaking share repurchase programs (Moin *et al.*, 2020). In China, regulations that promote the efficiency of share prices also play an important role in controlling stock prices (He and Fang, 2019). Thus, external factors, namely the ability of investors to analyze stock price volatility, macroeconomic events, financial transparency and government regulations, play a greater role in controlling the risk of stock price crashes, while IC does not play an important role in controlling stock prices.

Luo and Zang (2020) have proven that economic policy uncertainty is significantly and positively associated with aggregated stock price crash risk at the market level. Meanwhile, Wen *et al.* (2019) revealed that higher quality auditing can mitigate the impact of retail investor attention on firms' future crash risk. Lee *et al.* (2020) revealed that a supplier firm with a concentrated customer base experiences a higher crash risk, which is attenuated by lower switching costs and accentuated when the degree of information asymmetry is high. Another study shows that Chinese investor sentiment also affects stock price volatility (Li, 2019). Likewise, Ma *et al.* (2020) suggest that exposure to an undiversified corporate customer base can have a negative bearing on a firm's crash risk. The five studies indicate that economic policy, investor sentiment and audit quality have a significant effect on the risk of stock price crashes.

2.3 Intellectual capital efficiency

IC represents a company's intangible knowledge assets in the form of information and knowledge resources (Kitts *et al.*, 2001). Several studies have revealed that ICE can improve the performance of companies (see, e.g. Clarke *et al.*, 2011; Gogan *et al.*, 2016; Asiaei and Jusoh, 2017; Mustapha and Abdelheq, 2018; McDowell *et al.*, 2018; Sardo *et al.*, 2018; Huang and Huang, 2020). Investors are quite interested in buying shares when the company has implemented ICE. Lin *et al.* (2015) and Ozkan *et al.* (2017) show that the greater the ICE, the more it reduces stock price crashes.

Jerzak (2015) shows that human capital constitutes inborn skills and acquired skills, which, if invested efficiently, can strengthen the company's position, helping it gain competitive advantage. This means that HCE represents a selection of superior IC to be employed in the company's business. Meanwhile, Asiaei *et al.* (2018) have proven that there is a significant positive relationship between HCE levels and the use of a balanced performance measurement system. Dženopoljac *et al.* (2016) also revealed that HCE has a direct positive impact on the financial performance of companies. Therefore, companies that have a higher HCE are more likely to have a higher return on equity (ROE), a higher return on asset (ROA), a higher return on invested capital (ROIC) and tend to be more profitable.

In general, various strategies have been carried out by many companies to regulate structural capital in order to optimize the overall business performance. IC plays a central role in determining the structural capital model used in companies. Gogan *et al.* (2015) posit that determining the right model in structural capital is essential to obtain a competitive advantage in the market. This study indicates that IC plays an important role in determining efficient structural capital so that the organization's desire to be competitive in the market can be achieved. In addition, Ciprian *et al.* (2012) explained that IC is not sufficient to determine the accuracy of structural capital sizes; it is necessary to complement positions on intangible assets that can help to determine company policies and decisions.

Andersson *et al.* (2006) revealed that shareholder demand is a higher return on capital employed, meaning that CEE represents IC, which can perform accurate calculations in capital investment in order to obtain optimal returns. Mørch *et al.* (2017) explained that CEE plays an important role in making investment decisions because accurate calculations are needed regarding the fitness of operations and the financial performance of investments. Thus, ICE plays an important role in investment decisions.

2.4 Intellectual capital efficiency measurement model on stock price risk

Basically, the efficiency of ICE plays a role in the application of HCE, SCE and CEE. This study will examine the effect of ICE on stock price risk. In the testing process, we combine the measurement model of the performance of intellectual potential in the knowledge economy developed by Pulic (1998) and the calculation of the negative coefficient of firm-specific daily returns (NCSKEW) developed by Chen *et al.* (2017). ICE is calculated using three components, namely value-added human capital efficiency (VAHU), value-added structural capital (STVA) and value-added capital employed (VACA). Meanwhile, stock price risk is calculated using NCSKEW. More detailed calculations are explained in the methods section.

Several studies have used this model, which shows mixed results as well. Hejazi *et al.* (2016) found that increasing IC should increase firm value. Meanwhile, Kamukama and Sulait (2017) showed a positive and significant relationship between human capital, relational capital and structural capital on competitive advantage. Another study shows that the three sub-constructions of IC together have a positive and substantive relationship with business performance (Huang and Liu, 2005; Sharabati *et al.*, 2010). The four studies indicate that innovation and creation play a dominant role in describing the latent constructs of IC. Based on the discussion above, hypothesis (H1) is as follows:

- H1a. HCE is positively related to firm performance.
- H1b. SCE is positively related to firm performance.
- H1c. CEE is positively related to firm performance.

Chen *et al.* (2005) have confirmed that investors place higher value on companies with better ICE. Furthermore, Song (2015) has shown that the management tends to hide some negative information and suddenly release negative information in the future if the company has a higher level of accounting disclosure of IC. Dong and Zhang (2016) have also shown that environmental control, information and communication and monitoring components significantly reduce the risk of accidents, while risk assessment and control activity components do not show any relation to the risk of a stock price crash. Ben-Nasr and Ghouma (2018) explained that employee welfare is also a factor that contributes to the risk of stock price crashes. Further analysis shows that a strong corporate governance mechanism can reduce the risk of rising stock price crashes in less unionized companies and that there is a negative impact of union strength on the risk of stock price crashes (Liao and Ouyang, 2017). Meanwhile, Anifowose *et al.* (2017) showed a positive relationship between IC as a whole and the market capitalization value of a company. Some of these studies imply that IC can reduce the risk of stock investment. Based on the above discussion, hypothesis (H2) is as follows:

- H2a. HCE is negatively related to stock price crash risk.
- H2b. SCE is negatively related to stock price crash risk.
- H2c. CEE is negatively related to stock price crash risk.

Bennett *et al.* (2020) explained that the management, directly or indirectly, learns from its firm's stock price so that more informative stock prices should make the firm more

productive. This means that the informativeness of stock prices indicates that the company's performance is better. [Martani et al. \(2009\)](#) mentioned that a company's financial performance is shown by the profitability ratio, and the market value ratio significantly influences returns in the company. Based on this, the following hypothesis (H3) can be formulated as

H3. Firm performance is negatively related to stock price crash risk.

IC owned by the company is expected to create added value so that it can improve company performance. Good firm performance is an indicator that will be considered by investors in making investment decisions. [Cenciarelli et al. \(2018\)](#) show that bankruptcy prediction models that include IC have superior predictive capabilities over standard models. Meanwhile, stock price crashes are very likely to occur if the organization's internal controls are ineffective. The effectiveness of internal control depends on the research and development (R&D) conducted by the company. [Zhou and Pan \(2018\)](#) explained that companies that develop IC require capital for R&D, so they are faced with financing constraints. This means that ICE supports the effectiveness of internal control. In addition, the level of social trust also plays a role in the risk of stock price crashes. According to [Cao et al. \(2016\)](#), social trust, as a socioeconomic factor, is negatively correlated with accident risk. Companies in areas of high social trust tend to hide bad news. The management tends to disclose more related information to acquire investors. Thus, ICE is needed as a corporate strategy to increase information transparency and financial performance, which will result in increasing investor confidence. Based on the discussion above, we can hypothesize (H4) that

H4a. HCE is negatively related to stock price crash risk by using firm performance as an intervening variable.

H4b. SCE is negatively related to stock price crash risk by using firm performance as an intervening variable.

H4c. CEE is negatively related to stock price crash risk by using firm performance as an intervening variable.

3. Research design

3.1 Sample

This study uses companies from various sectors as research objects and sample for the research. The sample was collected from IDX's annual report data for 2018. We also obtained weekly stock data from Yahoo Finance. We then used the following selection criteria: First, similar to [Khan and Watts \(2009\)](#), we required that total assets and book values of equity for each firm be greater than zero. Second, to be included in the sample, a firm must have at least 20 weekly returns for each fiscal year. We also excluded incomplete company data and financial information. Finally, we obtained samples from 152 companies to apply to the study.

3.2 Measurement of independent variables

[Chen et al. \(2005\)](#) argue that VAIC and its three components, HCE, SCE and CEE, represent the independent variables. In order to calculate VAIC, we have to know the amount of HCE, SCE and CEE. This can be expressed in [Formula \(1\)](#).

$$\text{VAIC} = \text{HCE} + \text{SCE} + \text{CEE} \quad \text{Formula 1}$$

To measure VAIC, we need value added (VA) to be calculated. In its simplest form, VA is the difference between output and input. Output represents net sales revenues and input contains all the expenses incurred in earning the sales revenues except labor costs, which are

considered to be a value-creating entity (Tan *et al.*, 2008). This VA is also defined as the net value created by firms during the year (Chen *et al.*, 2005). VA can be calculated using Formula (2).

$$VA = S - B = NI + T + DP + I + W \quad \text{Formula 2}$$

S is sales; B is cost of goods sold; NI is net income after tax; T is taxes; DP is depreciation; I is interest expense and W is employee wages and salaries.

3.2.1 Human capital efficiency. Human capital factors consist of skills, knowledge, productivity, competence and all aspects that pertain to an employee in the work place. HCE can be calculated using a calculation developed by Pulic (1998), where HCE is calculated using the formula VAHU. VAHU calculations can be seen in Formula (3).

$$VAHU = VA/HC \quad \text{Formula 3}$$

3.2.2 Structural capital efficiency. Structural capital is an element in IC and consists of organizational networks, patents, strategy and brand names. Based on Pulic (1998), we calculated SCE as in Formula (4). Meanwhile, SCE is calculated using STVA as in Formula (5).

$$SC = VA - HC \quad \text{Formula 4}$$

$$STVA = SC/VA \quad \text{Formula 5}$$

SCE is the dollar of SC within the firm, for every dollar of VA, and as HCE increases, SCE increases. If the efficiency measures for both HCE and SCE were calculated with VA as the numerator, a logical inconsistency would remain (Pulic, 1998).

3.2.3 Capital employed efficiency. CEE is the efficiency that SCE and HCE fail to capture. Pulic (1998) argues that IC cannot create value on its own, and so it must be combined with capital (physical and financial) employed (CE). CEE shows how much VA is created by a dollar spent on CE. We could calculate CE as the total assets minus intangible assets and CEE is defined as VACA. VACA calculations can be seen in Formula (6).

$$VACA = VA/CE \quad \text{Formula 6}$$

3.3 Measurement of dependent variable

The risk of stock price crash is the risk of a significant stock price decline after the price had soared (Kim and Zhang, 2016). This variable was developed using a model developed by Chen *et al.* (2017), which can be seen in Formula (7).

$$NCSKEW = \frac{- \left[\frac{n(n-1)^3}{2} \sum_{T=1}^n (w_{i,T,t} - \bar{w}_{i,t})^3 \right]}{\left[(n-1)(n-2) \left(\sum_{T=1}^n (w_{i,T,t} - \bar{w}_{i,t})^2 \right)^{3/2} \right]} \quad \text{Formula 7}$$

$w_{i,T,t}$ is the company's weekly specific stock returns for T weeks in year t , $\bar{w}_{i,t}$ is the average weekly return of the company's specific stock for year t and n is the number of weeks for year t . The larger NCSKEW represents a greater negative slope rate of return, which means a greater risk of stock price crashes that can occur.

3.4 Measurement of intervening variable

This study uses firm performance as the intervening variable. We use ROE to analyze firm performance. We calculate this ratio with Formula (8).

$$ROE = \frac{\text{Earning after tax}}{\text{Equity}} \quad \text{Formula 8}$$

3.5 Empirical models

This study uses path analysis that produce two model regressions to test our hypotheses.

$$ROE = \alpha + \beta1 \text{ VAHU} + \beta2 \text{ STVA} + \beta3 \text{ VACA} + \beta4 \text{ SIZE} - \mu \quad \text{Model I}$$

$$\text{NCSKEW} = \alpha - \beta1 \text{ STVA} - \beta2 \text{ VACA} - \beta3 \text{ AHU} + \beta4 \text{ SIZE} - \beta5 \text{ ROE} - \mu \quad \text{Model II}$$

ROE is the ratio for measuring firm performance, NCSKEW is the negative coefficient of firm-specific daily returns as a proxy for stock price crash risk, VAHU is value-added human capital, STVA is value-added structural capital, VACA is value-added capital employed and SIZE is firm size as the control variable in this study.

4. Results

4.1 Normality test

Table 1 shows the significance value of Asymp. The Sig (two-tailed) is 0.200. The value is greater than 0.1. According to the basis of decision making in the Kolmogorov–Smirnov normality test above, it can be concluded that the data are normally distributed so that the assumptions or statements of normality in the regression model have been fulfilled for the data above.

4.2 Multicollinearity test

The basis for decision-making from the multicollinearity test is the value of tolerance (Tol) and variance inflating factor (VIF). Based on the output table, it is known that the tolerance value of each variable is greater than 0.1. While the VIF value for each variable is less than ten. Then, according to the basis for the multicollinearity test decision-making, we can conclude that there are no symptoms of multicollinearity in the regression model. Table 2 shows the results of the multicollinearity test.

One-sample Kolmogorov–Smirnov test

		Unstandardized residual
N		152
Normal Parameters ^{a,b}	Mean	0.000
	Std. deviation	0.924
Most extreme differences	Absolute	0.059
	Positive	0.037
	Negative	-0.059
Test statistic		0.059
Asymp. Sig. (two-tailed)		0.200 ^{c,d}

Note(s): a. Test distribution is normal; b. Calculated from data; c. Lilliefors significance correction and d. This is a lower bound of the true significance

Table 1.
Normal probability test result

4.3 Heteroskedasticity test

Based on Figure 1, we know that data dots spread above and below or around the number 0. We can then see that the dots are not just clustered above or below. The distribution of data points does not form a wavy pattern, widening then narrowing and then widening again. We can also see that the dots do not make a certain pattern. According to the analyses, we can conclude that there is no heteroscedasticity problem; so a good and ideal regression model can be fulfilled.

4.4 Path analysis

In Table 3, Model 1 shows that the STVA and VACA coefficients have a significant positive effect on ROE at a significance level of 1% with a significance value of 0.015 and 0.000, respectively. While, based on Table 2, there is no significant relationship between VAHU and ROE at the 1% significance level; so we can conclude that H1(a) is rejected. Based on a beta test, VACA is the variable that most influences changes in ROE. The value of Sig. *F*-statistics shows that at a significance level of 1%, VAHU, VACA and STVA simultaneously influence

Table 2.
Multicollinearity
test results

Model 1	Unstandardized coefficients		Standardized coefficients			Collinearity statistics	
	<i>B</i>	Std. error	Beta	<i>t</i>	Sig.	Tolerance	VIF
(Constant)	-4.074	1.323		-3.079	0.002		
VAHU	-0.062	0.096	-0.103	-0.640	0.523	0.247	4.052
STVA	0.144	0.952	0.025	0.151	0.880	0.236	4.231
VACA	0.958	0.891	0.117	1.076	0.284	0.538	1.860
SIZE	0.123	0.043	0.248	2.857	0.005	0.847	1.181
ROE	-0.271	1.481	-0.021	-0.183	0.855	0.475	2.104

Note(s): Dependent variable (NCSKEW)

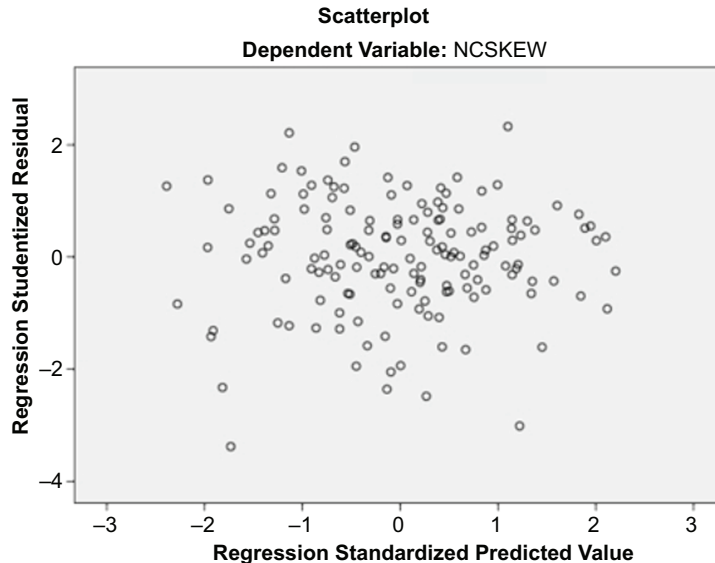


Figure 1.
Heteroskedasticity
test result

	Dependent variable: ROE		Dependent variable: NCSKEW	
	Predicted sign	Model 1	Predicted sign	Model 2
VAHU	+	0.001 (0.005)	-	-0.062 (0.096)
STVA	+	0.128** (0.052)	-	0.144 (0.952)
VACA	+	0.404* (0.037)	-	0.958 (0.891)
SIZE (Control)	+	0.010* (0.002)	-	0.123 (0.043)
ROE (Intervening)			-	-0.271 (1.481)
Constant		-0.340 (0.068)		-4.074 (1.323)
<i>R</i> -square (R^2)		0.525		0.066
Sig. <i>F</i> -stat		0.000*		0.074***
<i>N</i>		152		152

Note(s): This table presents the correlation coefficient number (β), while the number within parentheses is the standard error. *, ** and *** indicate significance at the levels 1%, 5% and 10%, respectively

Table 3.
Results of the regression model

ROE. This result is a strong indicator that there is a relationship between IC and firm performance, thus supporting H1(b) and H1(c). That is, if a firm can use its IC more efficiently in one year, this can lead to a performance increase in the same year.

In Table 3, Model 2 shows that all of the components of IC do not have any significant relationship with stock price crash risk at the 1% significance level. From Table 2, we also know that ROE does not have any significant influence on stock price crash risk. Furthermore, we use Model 1 and Model 2 for path analysis. After acquiring the numbers from Table 2, we calculated the indirect effect by multiplying the effect of the IC component with ROE and then ROE with stock price crash risk. Based on Table 2 and the path analysis calculation, VAHU has a direct effect on stock price crash risk of 0.103 while the indirect effect of VAHU on stock price crash risk through ROE is 0.000399. STVA has a direct effect on the risk of a stock price crash of 0.025 while STVA has an indirect effect on the risk of a stock price crash of 0.005922. Furthermore, the VACA component has a direct effect of 0.117 and an indirect effect of 0.01264 on the risk of stock price crashes. According to the principle of path analysis, if the indirect effect is greater than the direct effect, then it means there is a significant relationship in the indirect relationship between variables. We can conclude from the data that VAHU, STVA and VACA do not have any significant relationship with stock price crash risk either directly or indirectly through firm performance.

5. Discussion

Several studies show that IC plays an important role in improving sustainable company performance and business progress (see, e.g. Castillo *et al.*, 2019; Lee and Lin, 2019; Opong and Pattanayak, 2019; Secundo *et al.*, 2020). However, the test results in this study prove that IC has no effect on stock crash risk on the IDX. In addition, other results show that the company's performance, as represented by ROE, also has no effect on stock price crash risk. We find that information inefficiency results in general distrust of stock markets in developing countries (Yang *et al.*, 2019). Information inefficiency is a global problem that always exists in the stock market, although more prevalent in developing countries than developed countries (Boya, 2019; Bartram and Grinblatt, 2021). Meanwhile, Al-Yahyaee *et al.* (2020) explain that high liquidity that is not balanced with low volatility will weaken information efficiency in the stock market. This indicates that a company's financial performance appears to be no longer considered in the share purchase decision.

Investors' optimistic (pessimistic) sentiment toward stock prices seems to dominate influence on the operation of the stock market. The sentiment index built on social media has

been shown to greatly influence the volatility of stock prices (Liang *et al.*, 2020). The optimistic (pessimistic) sentiment of Internet search-based investors can also influence premium value in the United States stock market (Teti *et al.*, 2019; Klemola, 2020). Meanwhile, Ni *et al.* (2019) reveal that the fluctuation of stock prices is more sensitive to the intraday sentiment of individuals. Chau *et al.* (2016) explain that sentiment-induced buying and selling is an important determinant of stock price variation. Based on explanations from various studies, we believe that investors' optimistic (pessimistic) sentiment toward stock price volatility dominates influence on buying or selling decisions, so that the financial performance aspects of listed companies are obscured in the stock market.

6. Conclusions and implications

6.1 Conclusions

This study examines the effect of IC components on stock price crash risk by using firm performance as an intervening variable. This research is a quantitative study using secondary data on annual reports published by the IDX and stock price data published by Yahoo Finance. IC variables are measured by the VAIC method written by Pulic (1998), and stock price crash risk variables are measured by NCSKEW developed by Chen *et al.* (2017). Data were processed using the path analysis method to determine the direct effect and indirect effect from each of the interrelated variables.

Simultaneously, the VAHU, STVA and VACA variables have a significant relationship to firm performance; however, partially, VAHU does not have a significant effect like STVA and VACA. Capital employed has the biggest influence on firm performance. The results state that the three IC variables do not have a significant direct or indirect relationship with stock price crash risk. This result is in line with several previous studies. So far, the optimistic (pessimistic) sentiment of investors regarding the volatility of share prices has obscured aspects of the financial performance of listed companies. We conclude that investor sentiment has dominated influence on stock price crash risk so that the IC aspect has become obscured.

6.2 Implications

So far, research on IC has been discussed in 700 articles written by leading authors at various universities (Dubic *et al.*, 2020). However, there is no research that discusses IC disclosure on the stock market. This research provides an understanding that the stock market is driven by the optimistic (pessimistic) sentiment of investors. This fact implies that IC disclosure, which is proxied by the company's financial performance, becomes obscured, while investors prefer to analyze the volatility of stock prices as a parameter in buying or selling decisions. In future research, it is necessary to modify the measurement of the intellectual property associated with knowledge of stock price volatility.

Basically, the ability and knowledge for compiling a stock portfolio that reveals specific information about the company is needed to increase shareholders' confidence (Chance and Yang, 2007). Meanwhile, specific information about the company will produce idiosyncratic volatility, which is the best predictor of stock returns and is proven to have a positive impact on investors' heterogeneous beliefs (Kongsilp and Mateus, 2017; He *et al.*, 2020). Zhan (2019) argues that there was a positive relationship between synchronization of stock price movements and stronger stock market volatility for emerging markets during the financial crisis from June 2007 to December 2008. As regards practical application, IC represents the knowledge and ability for preparing a stock portfolio that contains company-specific information, which is needed to minimize stock price crash risk.

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