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The Effect of Intellectual Capital on Fair Value of Shares: Evidence from Indonesia's Basic Materials Sector

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ABSTRACT

Intellectual capital, which includes intangible assets such as knowledge, innovation, and organizational capability, plays a critical role in influencing firm performance and valuation, particularly in knowledge-intensive industries. This study aims to examine the effect of intellectual capital on the determination of fair value of shares in companies operating in the Basic Materials sector. The study uses a quantitative approach with multiple linear regression analysis applied to a sample of 132 observations from 46 companies listed on the Indonesia Stock Exchange (IDX) from 2019 to 2023. The fair value of shares is measured using the Price Earnings to Growth (PEG) ratio, while intellectual capital is assessed through its three key components: human capital, structural capital, and relational capital. The findings provide empirical evidence that intellectual capital has a significant and positive impact on the fair value of shares. Among the control variables, leverage shows a negative effect, while firm size does not significantly influence fair value. The study concludes that intellectual capital should be strategically managed and disclosed, as it contributes to market valuation. These results offer valuable implications for investors, regulators, and company management in developing more comprehensive valuation models in emerging markets.

Keywords: Basic Materials; Fair Value of Share; Human Capital; Intellectual Capital; Price Earning to Growth

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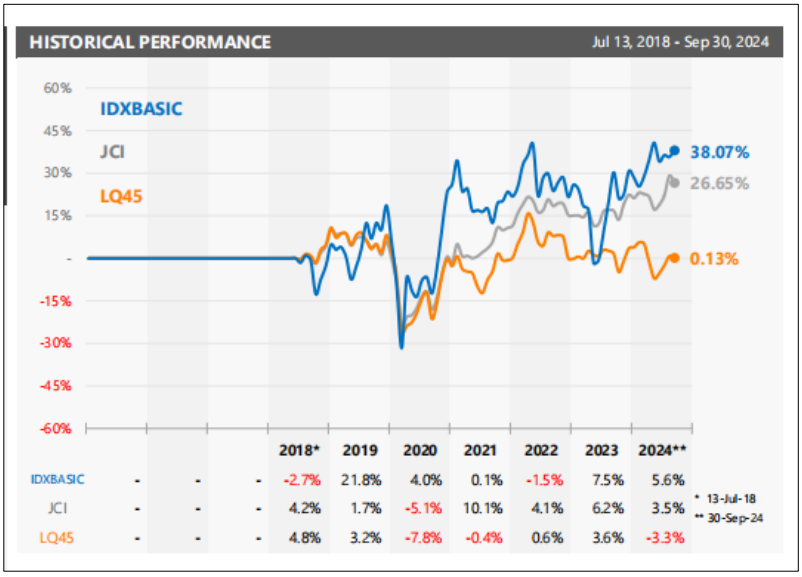
INTRODUCTION

The condition of the textile and textile products (TPT) industry in Indonesia continues to deteriorate, with several manufacturers halting operations due to mounting challenges. One recent case involves PT Asia Pacific Fibers, Tbk (POLY, which announced the temporary suspension of one of its chemical and fiber factories in Karawang, effective November 1, 2024. The company reported a significant decline in operational activity, with utilization levels estimated to have fallen below 40% by the third quarter of 2024. In addition to declining performance, POLY is also facing persistent pressure on working capital and capital expenditure, compounded by a prolonged debt restructuring process that has remained unresolved since 2005. The temporary closure of this factory—operational for over three decades—is projected to result in a 52% annual revenue decline for the company. During the 60-day operational halt, POLY plans to reposition its business model and adjust its product configuration in preparation for the factory's reopening (Andi, 2024).

This condition shows that problems in the textile sector are not only related to external factors but also caused by limitations in the management and utilization of corporate intellectual capital. In the theory of intellectual capital, which includes human capital, structural capital, and employed capital efficiency, plays an important role in creating added value for the company and improving operational efficiency. The absence of effective management of intellectual capital can lead to a decrease in competitiveness, which is ultimately reflected in the fair price of the company's shares in the capital market.

Previous research indicates that intellectual capital can affect financial performance and enhance investor confidence, contributing to stock price stability (Pulic, 2000). In the case of PT Asia Pacific Fibers, low operational utilization may indicate inadequate use of structural capital and innovative capacity. This, in turn, can reduce market perceptions of the intrinsic value of the company's shares. The challenging conditions faced by the TPT sector, particularly in polyester (POLY), emphasize the need to optimize intellectual capital to remain competitive, enhance productivity, and achieve a fair share price that more accurately reflects the company's intrinsic value. Analyzing the stock price index from 2018 to September 30, 2024, it can be seen that the Basic Materials sector has experienced fluctuations, as illustrated in Figure 1.

Figure 1. Historical Performance of the Stock Price Index in the Basic Materials Sector



Source: Indonesia Stock Exchange (IDX, n.d.)

As shown in Figure 1, in 2018, IDXBasic experienced a decline of 2.7%. However, in 2019, the stock price showed a positive trend, with an increase of 21.8%. This was followed by a significant drop in 2020, where the stock price decreased by 4%, and in 2021, there was a slight decline of 0.1%. The downward trend continued in 2022 with a decrease of 1.5%. In 2023, there was an increase of 7.5%, but by September 2024, a decrease of 5.6% was anticipated.

Research has shown that both human capital and relational capital positively influence the effectiveness of financial strategies (Putra et al., 2022). Intellectual capital positively affects stock prices and profitability using the ratio of the closing stock price as a measurement (Safira et al., 2023). The study analyzed samples from eight companies. The relationship between earnings and stock prices is influenced by intellectual capital, and transparency offers crucial information for comprehending the company's complete picture. Rasyid (2016) using Current Stock Prices and Measurements of Intellectual Capital Index. Then's (2018) research is limited to the retail sector; intellectual capital has a positive effect on market value, with the market-to-book value as a measure.

This study aims to analyze the impact of intellectual capital on the fair value of shares by focusing on the financial performance of Basic Materials companies listed on the Indonesia Stock Exchange (IDX) from 2019 to 2023, with particular emphasis on stock valuation using the Price Earnings to Growth (PEG) ratio—a method that remains underexplored in existing literature, especially within the context of emerging capital markets such as Indonesia. The PEG ratio offers a more refined and forward-looking perspective by integrating both price-to-earnings metrics and expected earnings growth, making it a more robust tool for evaluating whether a stock is overvalued or undervalued. Compared to conventional valuation methods, the PEG ratio reflects a more stable and intrinsic valuation because it accounts for future prospects rather than relying solely on current performance. It minimizes the noise of short-term market volatility and offers a clearer insight into the sustainable value of a firm (Laila, 2024).

The significance of this research lies in its potential to bridge the gap between intangible asset measurement and market valuation. As businesses become more knowledge-intensive, especially in the financial and technology sectors, intellectual capital has emerged as a key driver of competitive advantage and long-term value creation. Understanding how intellectual capital influences the fair value of shares can enhance the precision of investment decisions, assist investors in assessing company potential more holistically, and encourage firms to invest strategically in human, structural, and relational assets.

The novelty of this study is reflected in its integration of intellectual capital analysis with the PEG valuation framework—an approach that is rarely addressed in previous empirical research, particularly in the Indonesian context. Additionally, this study introduces leverage and firm size as control variables to provide a more accurate and controlled assessment of intellectual capital's effect on share value. Unlike many prior studies that limit their focus to profitability or return on assets, this research offers a unique contribution by shifting the focus toward valuation relevance and market perception.

The contribution of this study is both theoretical and practical. Theoretically, it enriches the intellectual capital literature by linking it to fair value measurement through a forward-looking valuation metric. Practically, the findings are expected to benefit investors, analysts, regulators, and corporate decision-makers. For investors, it provides a rationale for incorporating intellectual capital indicators into equity valuation. For regulators and policymakers, the results support the urgency of enhancing transparency

and disclosure standards for intellectual capital. For company management, this research highlights the strategic importance of intellectual assets in improving firm value and positioning within the capital market. By shedding light on the underexplored relationship between intellectual capital and fair valuation, this study offers a valuable framework for modern investment analysis and policy formulation.

LITERATURE REVIEW

Signaling Theory

Signaling theory explains that companies have the incentive to provide financial report information to internal parties. The company's encouragement to provide information is because there is an information asymmetry between the company and the investor. After all, the company knows more about prospects than outsiders (investors, creditors). The motivation of signaling encourages management to present profit statements that do not reflect the actual profit (Siladjaja et al., 2023). A signal is an action a high-type manager takes that would not be rational if that manager was a low-type (Scott, 2015).

According to the signal theory, the company provides information to investors about substantive future return prospects, especially information announced by the management to the public that the company has good prospects in the future. The owner of the information provides a signal in the form of information describing the company's condition that is beneficial to the recipient (investor) (Spence, 2002). Signal refers to the efforts made by the company's owners to communicate the information they have to investors (Leland & Pyle, 1977).

Stakeholder Theory

According to stakeholder theory, organizational management should engage in activities that their stakeholders find significant and update stakeholders on those actions. According to this notion, even if they are unable to directly contribute to the organization's survival or choose not to use the knowledge, all stakeholders have the right to know how the organization's operations impact them (Deegan, 2014). A stakeholder is defined as follows in Freeman and Reed's in Ulum (2017) classic definition, which is the one that is most frequently cited: “any identifiable group or individual who can affect the achievement of an organization’s objectives, or is affected by the achievement of an organization’s objectives.”

Stewardship Theory

Stewardship theory is a psychological and sociological theory that was developed when executives, acting as "stewards," are motivated to follow the wishes of the principal. It describes a situation in which managers are not motivated by personal goals but rather by their primary outcome goals for the benefit of the organization. Furthermore, as the "steward" function aims to accomplish the business's objectives, the conduct of the role will remain within the organization (Siladjaja et al., 2023). In a stewardship-based approach, stewards act collectively with the aim of achieving organizational goals, such as increasing sales and profitability. This behavior not only benefits outside owners—through positive impacts on profits, dividends, and share prices—but also enhances the status of managers as the stewards effectively pursue their objectives (Siladjaja et al., 2023).

Agency Theory

Jensen and Meckling (2019) assume that the manager uses options to select and use information but does not provide a detailed explanation of the nature of the accounting method (options). The great focus of agency theory is the incentive of managers (stock options, bonuses, and other prerequisites) to make accounting choices (without

identifying accounting methods) in their suitability unless their interests, decisions, and actions are constrained by internal controls and external audits (Ulum, 2017). Agency theory is a branch of game theory that studies the design of contracts to motivate a rational agent to act on behalf of a principal when the agent's interests would otherwise conflict with those of the principal (Scott, 2015).

Legitimacy Theory

The legitimacy theory posits that organizations consistently seek to ensure their operations align with societal limits and norms. According to Deegan (2014) and Ulum (2017), the legitimacy theory suggests that a company will voluntarily report its activities if management believes that this aligns with community expectations. This theory is based on the idea of a social contract between the company and the society in which it operates. Legitimacy theory is closely connected to intellectual capital reporting and often involves content analysis as a method of measuring such reporting. Companies are more likely to disclose their intellectual capital when they have a specific need to do so. This need may arise when a company struggles to establish its legitimacy through tangible assets, commonly viewed as success indicators.

According to Lindblom (1994), an organization may employ a variety of aggressive tactics if it believes that its legitimacy is being called into doubt. First, companies can figure out how to tell and educate their stakeholders about changes in their operations and performance. The second is that organizations can alter stakeholder perceptions without altering their actual actions. Third, corporations can seek to influence stakeholder perceptions by focusing emphasis on emotional symbols and diverting attention from some issues to other related issues (Guthrie in Ulum, 2017).

Intellectual Capital

The gap between the market worth of the firm (the business) and the book value of the company's assets or financial capital is sometimes referred to as intellectual capital. This is based on the finding that, since the 1980s, the market value of the majority of businesses—particularly knowledge-based businesses—has increased above the value shown in the financial accounts, which are derived from accountants' computations (Roslender and Fincham in Ulum, 2017). There are several ways of measuring intellectual capital. One of the popular models is the Value Added Intellectual Coefficient (VAIC) developed by Pulic (2000).

Firer and Williams in Ulum (2017) stated that the concept of Value Added (VA) in the calculation of VAIC is not related to the financial performance dimension, so intellectual capital does not have an impact on the company's financial performance. Profitability, one of the ways to measure a company's performance, is measured only based on accounting performance for the benefit of shareholders. On the other hand, virtual assistants are defined as contributions to increasing potential and well-being for all stakeholders, not just shareholders.

According to Ulum (2017), the lack of consistency in the results indicates that there is no conclusive link between intellectual capital and organizational performance. Furthermore, it is evident from numerous studies that demonstrate a positive relationship between intellectual capital and business value that physical capital is the component with the highest significance level (Basuki & Kusumawardhani, 2012; Kamal et al., 2012; Khanqah et al., 2012). Accordingly, the analysis of physical capital efficiency (CEE-capital employed efficiency) is a complementary analysis and is not a direct model of VAIC (Pulic, 2000).

Fair Value of Shares

The appraisal rights of shareholders have been directly and significantly undermined by the widespread acceptance of modern financial theory, particularly the Capital Asset Pricing Model (CAPM). According to the CAPM, in an efficient capital market, the current market price of a security already reflects all publicly available information about the company, including the expected level of risk and the anticipated rate of return. This implies that the stock price is a fair and accurate representation of the company's intrinsic value as perceived collectively by rational investors. As a result, there is little need for independent or judicial appraisal of shares since the market itself is assumed to perform that function continuously and objectively.

In this theoretical framework, investors are expected to rely on the efficiency of the market to obtain the fair value of their investments. If a shareholder becomes dissatisfied with corporate actions—such as mergers, acquisitions, or restructuring—they are presumed to have the option to sell their shares at a price that already captures the security's underlying worth. The notion is that in an efficient market where the "price is right," there is no necessity for legal recourse through appraisal rights because the market provides an exit mechanism that guarantees compensation at fair value.

This rationale, as articulated by Clark (as cited in Stoutt, 1990), suggests that the very existence of a well-functioning market renders appraisal mechanisms redundant. However, critics argue that this theoretical position may overlook practical realities—such as information asymmetry, market volatility, and investor behavioral biases—that can cause market prices to deviate from intrinsic value, especially during times of corporate change. Thus, while modern financial theory proposes a streamlined view of shareholder protection, its application in real-world contexts may raise concerns about the erosion of shareholder rights, particularly for minority investors in imperfect markets.

Hypotheses Development

The Relationship Between Intellectual Capital and Fair Value of Shares

From the perspective of resource-based theory (RBT), Barney (1991) defines resources as all assets, capabilities, organizational processes, company attributes, information, knowledge, and others controlled by the company in implementing strategies to improve efficiency and effectiveness. According to Barney, the company's resources consist of three aspects: physical capital resources, human capital resources, and organizational capital resources. Wright et al. (1994) highlight two key aspects of human resources that are vital for organizations in the context of intellectual capital. First, they emphasize the knowledge, skills, and abilities possessed by the individuals within the organization. Second, they point out that these individual characteristics only provide value to the company if they are effectively managed. This indicates that having talented employees is not enough; they must be nurtured and managed properly to have a meaningful impact on the organization. By effectively managing these human resources, companies can achieve a competitive advantage and enhance their overall value (Agustian et al., 2023).

Furthermore, the improved performance of intellectual capital positively influences how the market evaluates the company (Ulum, 2017). According to Barney (1991), because it can generate competitive advantages and better financial performance, intellectual capital is considered a company's asset. Companies that are better at managing elements of intellectual capital show that they are also better at managing these assets.

Research conducted by Putra et al. (2020) shows that intellectual capital has a positive effect on firm performance (including marketing, financial strategy, and financial sustainability). In general, a company's performance is related to the fair price of a stock, as good financial performance indicates profitability, operational efficiency, and stronger

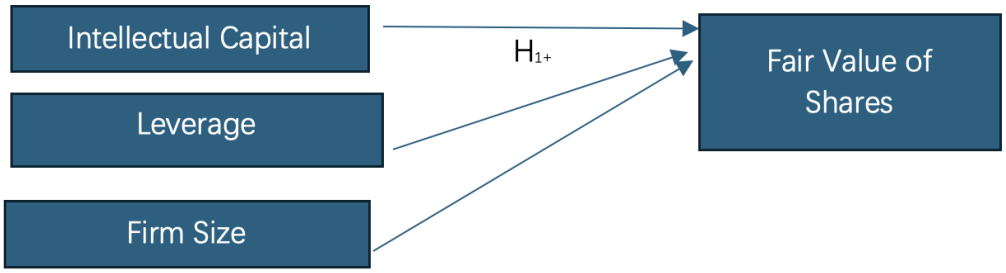
growth prospects, contributing to higher stock valuations. Furthermore, based on research conducted by Safira et al. (2023) shows that intellectual capital has a positive effect on IDXTechno's Share Prices. Thus, the hypothesis is:

H1: Intellectual capital positively affects the fair value of shares.

Conceptual Framework

In this study, the dependent variable is the Fair Value of Shares, the independent variable is Intellectual Capital, and the control variables are Leverage and Firm Size. The conceptual framework for the study is developed in Figure 2, based on the aforementioned hypotheses.

Figure 2. Conceptual Model



RESEARCH METHOD

This study uses a quantitative approach to research. The quantitative research method is grounded in the philosophy of positivism, aiming to examine a defined population or sample using statistical techniques and structured instruments to test pre-determined hypotheses. The population in this study includes 46 companies in the Basic Materials sector listed on the IDX during the period from 2019 to 2023. The sample selection technique employed is purposive sampling, whereby samples are chosen based on specific, relevant criteria. The criteria used are as follows: (1) Companies listed on the IDX from January 1, 2019, to December 31, 2023; (2) Companies categorized under the development board within the Basic Materials sector, having assets between 50 billion and 250 billion rupiahs; and (3) Companies with complete and accessible data relevant to the research variables.

This study consists of one dependent variable, one independent variable, and two control variables. The dependent variable is the Fair Value of Shares (Y), which is determined using the PEG ratio. The independent variable is Intellectual Capital (X1), which reflects a company's intangible value stemming from human capital, structural capital, and relational capital. The control variables are Leverage (X2), which refers to the ratio of debt to equity or assets, and Firm Size (X3), typically measured by the natural logarithm of total assets. These control variables are included to account for their possible influence on the fair value of shares beyond the effect of intellectual capital.

Secondary data serves as the main data source, drawn from publicly available records, including IDX financial statements, Yahoo Finance, Investing.com, and the official websites of the respective companies. To test the research hypothesis and examine the relationship between variables, multiple regression analysis will be conducted using statistical software, enabling the evaluation of how intellectual capital and the control variables influence the fair value of shares. The regression equation model that will be examined in this study is:

$$PEG = \alpha + \beta 1IC + \beta 2L + \beta 3Ln\ SIZE + e$$

Description:
PEG = Price Earning Growth
A = Constant
β1- β = Coefficient of change of value
IC = VAIC™ (HCE (Human Capital Efficiency) + SCE (Structural Capital Efficiency) + CEE (Capital Employed Efficiency))
L = Leverage, Total Debt divided by Total Assets
Ln SIZE = Total natural logarithms of assets
e = residual

RESULTS

The sample of this study used 46 companies in the Basic Materials sector selected in purposive sampling with criteria included in the development board, using the 2019 – 2023 research year of 132 observation data. From the results of the Chow test, Hausmann test, and Lagrange Multiplier test, the model used is the common effect model.

Table 1. Descriptive Statistics Example (N =132)

Variable	Min	Max	Mean	SD
PEG (Y)	-3.91	8.82	2.67	2.24
IC (X1)	0.00	6.43	3.27	1.14
LEVERAGE (X2)	0.00	1.47	0.45	0.26
SIZE (X2)	2.67	13.09	8.42	3.53

Source: Data Author
Note: PEG (Fair Value), IC (Intellectual Capital)

According to the descriptive analysis findings presented in Table 1, the Fair Value of Shares (Y) has a mean value of 2.67, a maximum value of 8.82, and a minimum value of -3.91. Given that the standard deviation is 2.24—slightly below the mean—the PEG ratio data tends to be normally distributed. Intellectual Capital (X1) shows a mean value of 3.27, with a minimum of 0.00 and a maximum of 6.43. The standard deviation is 1.14, which is lower than the mean, indicating that the intellectual capital data is relatively well distributed and free from extreme variance. Leverage (X2) has a mean of 0.45, a standard deviation of 0.26, a minimum value of 0.00, and a maximum value of 1.47. Since the mean exceeds the standard deviation, the leverage data is considered uniformly distributed. Lastly, Firm Size (X3) shows a mean of 8.42, a standard deviation of 3.53, a minimum value of 2.67, and a maximum of 13.09. The fact that the mean value is greater than the standard deviation suggests that the size data is also well-distributed and does not exhibit extreme outliers. Overall, the descriptive statistics indicate that the data distribution across all variables is stable and suitable for further analysis.

Table 2. Result of Regression Analysis

	Coefficient	t	Prob
Constant	2.106	3.003	0.0032
IC (X1)	0.548	3.099	0.0024
LEVERAGE (X2)	-2.65	-3.534	0.0000
SIZE (X3)	-0.004	0.074	0.9407

Source: Data Author
Note: IC (Intellectual Capital)

Based on the presented data in Table 2, the Intellectual Capital (X1) variable shows a positive coefficient of 0.548, indicating that for every one-unit increase in intellectual capital, the fair value of shares increases by 0.548 units. This relationship is statistically significant, with a t-value of 3.099 and a p-value of 0.0024, confirming its strong influence at the 5% significance level. The regression constant has a coefficient of 2.106, a t-value of 3.003, and a p-value of 0.0032, also indicating statistical significance.

Conversely, the Leverage (X2) variable has a negative coefficient of -2.65, suggesting that an increase in leverage leads to a decrease in the fair value of shares by 2.65 units. This effect is statistically significant, supported by a t-value of -3.534 and a p-value of 0.0000, indicating a strong and negative relationship.

Meanwhile, the Firm Size (X3) variable has a coefficient of -0.004 and a p-value of 0.9407, which is far above the 0.05 threshold for significance. This result implies that firm size does not exert a statistically significant influence on the fair value of shares within this model.

In summary, the regression analysis confirms that intellectual capital has a significant and positive effect on the fair value of shares, leverage has a significant negative effect, and firm size shows no statistically significant impact in this context.

Table 3. Overview Result

R-Squared	0.114261
Adjusted R-Squared	0.093501
S.E. of Regression	2.134457
Sum Squared Resid	583.1559
Log Likelihood	-285.3530
F-Statistic	5.504023
Prob (F-Statistic)	0.001376

Note: Model : PEG = 2.10 + 0.54*IC - 0.004*SIZE - 2.65*LEVERAGE

Based on the regression output presented in Table 3, the model demonstrates a modest explanatory power. The R-squared value of 0.1143 indicates that approximately 11.43% of the variation in the dependent variable, Fair Value of Shares (Y), can be explained by the independent variable Intellectual Capital (X1) and the control variables Leverage (X2) and Firm Size (X3). Although the R-squared value is relatively low, this is not uncommon in social science and financial studies, where complex phenomena are influenced by multiple external factors. The Adjusted R-squared value of 0.0935, which accounts for the number of predictors in the model, is slightly lower—suggesting that while the model includes relevant variables, some may contribute only marginally to the overall variation.

The Standard Error of Regression (2.1345) reflects the average distance between the observed and predicted values of the dependent variable. Although not exceptionally small, this value is acceptable for exploratory financial models and indicates that the model predicts the data with moderate precision. The Sum of Squared Residuals (583.16) quantifies the total deviation of predicted values from actual observations, where a lower value would imply a better model fit.

Importantly, the model's F-statistic of 5.504 with a significance level of 0.0013 ($p < 0.05$) confirms that the regression model is statistically significant overall. This means that the independent and control variables collectively provide meaningful predictive power for the fair value of shares.

Focusing on the primary hypothesis, the regression coefficient for Intellectual Capital (X1) is 0.548, and the associated p-value is 0.0024, well below the conventional significance threshold of 0.05. This result confirms a positive and statistically significant relationship between intellectual capital and the fair value of shares. In practical terms, this suggests that for every one-unit increase in intellectual capital, the fair value of a company's shares increases by 0.548 units, holding leverage and firm size constant.

Therefore, the findings provide empirical support for H1, which posits that intellectual capital positively affects the fair value of shares. This underscores the strategic importance of intangible assets—such as knowledge, skills, and organizational systems—in enhancing firm valuation, particularly in sectors where intellectual resources play a central role in value creation.

DISCUSSION

The findings of this study provide strong empirical support for H1, which posits that intellectual capital positively influences the fair value of shares. The regression coefficient for intellectual capital was 0.548, with a p-value of 0.0024, indicating a statistically significant and positive relationship. This suggests that companies with higher investments in intellectual capital—reflected through enhanced human resources, robust organizational structures, and strong external relationships—are more likely to achieve higher fair value in the stock market. The results emphasize the strategic importance of intangible assets in shaping investor perceptions and market confidence, especially in an economy increasingly driven by knowledge and innovation.

These findings align well with the signaling theory, which argues that companies send signals to the market through various forms of disclosure and corporate behavior. In this case, the transparent and strategic disclosure of intellectual capital serves as a positive signal to investors, communicating the firm's innovation capacity, growth potential, and long-term sustainability. Investors, in turn, respond to these signals by valuing the company more highly, leading to increased share prices that reflect a more accurate fair value. This is consistent with the work of Putra et al. (2022), Rasyid (2016), and Safira et al. (2023), who also found that intellectual capital—whether measured through VAIC, MVAIC, or component-based models—has a positive and significant effect on firm value. Although different studies have used varying measurement models and market contexts, they converge on the conclusion that intellectual capital is a key determinant of a firm's valuation.

Beyond signaling theory, the results also reinforce insights from other theoretical perspectives. From the lens of stewardship theory, effective utilization and disclosure of intellectual capital reflect management's commitment to acting in the best interest of the organization and its stakeholders. Managers who prioritize knowledge development and innovation are seen as stewards of long-term value creation, which builds trust and legitimacy in the eyes of shareholders and the broader public (Bacq & Aguilera, 2022).

Stakeholder theory further complements this interpretation. Intellectual capital is not only a source of competitive advantage but also a vehicle for meeting the expectations of diverse stakeholder groups, including employees, customers, suppliers, and regulators (Gross-Gołacka et al., 2020). By investing in and reporting on intellectual capital, companies demonstrate their responsiveness to stakeholder concerns around innovation, quality, governance, and sustainability—all of which contribute to an improved perception of firm value.

From the perspective of agency theory, disclosing intellectual capital can also serve as a mechanism to reduce information asymmetry between managers and shareholders (Vitolla et al., 2020). Transparent communication regarding knowledge assets and their impact on performance helps align interests and reduce the potential for opportunistic behavior, thereby increasing shareholder confidence and supporting market value.

Lastly, legitimacy theory helps explain how intellectual capital disclosures contribute to maintaining or gaining social approval (Yahya et al., 2023). In a highly competitive and socially conscious environment, companies are expected to show not just financial success but also social responsibility, ethical behavior, and long-term resilience. Intellectual capital disclosures—especially those related to human development, innovation, and stakeholder engagement—can help companies maintain legitimacy in the eyes of society, which in turn supports stable and sustainable firm valuation.

By integrating these five theoretical perspectives, companies can develop a holistic and sustainable strategy for managing and disclosing intellectual capital. Accurate, timely, and insightful disclosures not only act as market signals but also enhance corporate trustworthiness, align interests between management and stakeholders, and support both organizational performance and legitimacy. This integrated approach enables firms to sustain fair and realistic valuations in the capital market while adapting to evolving expectations from investors and society at large.

CONCLUSION

This study examines the effect of intellectual capital on determining the fair value of shares. Using a sample of 132 observations from 46 companies in the Basic Materials sector listed on the IDX between 2019 and 2023, the study finds that intellectual capital has a significant and positive influence on fair value, confirming H1. The regression results show a positive coefficient of 0.548 and a p-value well below the 0.05 significance threshold, indicating that firms with higher intellectual capital tend to achieve greater market valuation. This affirms that intangible assets—particularly human resources, structural capabilities, and stakeholder relationships—play a crucial role in driving firm value beyond traditional financial metrics.

In contrast, leverage was found to negatively and significantly influence fair value, suggesting that financial risk is perceived unfavorably by the market. Meanwhile, firm size did not demonstrate a statistically significant effect, which implies that scale alone may not be sufficient to enhance valuation in the Basic Materials sector unless accompanied by strategic use of intangible resources.

The findings of this study carry important practical implications. For investors, they highlight the value of incorporating intellectual capital indicators into valuation models, especially in resource-based sectors where innovation, efficiency, and operational systems may offer a competitive edge. For regulators and standard setters, this study underscores the need to strengthen disclosure regulations concerning intellectual capital, encouraging greater transparency and consistency to support more accurate investment decisions. For corporate decision-makers, the results emphasize the importance of actively managing and reporting intellectual capital to enhance firm reputation, investor confidence, and long-term valuation.

From a theoretical perspective, the findings validate the integration of signaling, stewardship, stakeholder, agency, and legitimacy theories. Intellectual capital disclosure functions not only as a strategic signal to the market but also as a tool to reduce information asymmetry, align stakeholder interests, promote accountability, and

reinforce a company's legitimacy in an increasingly competitive and sustainability-focused environment.

Future research is encouraged to explore this relationship across other sectors—particularly technology, healthcare, or consumer goods—where intangible assets are deeply embedded in value creation. Furthermore, a deeper examination of qualitative aspects of intellectual capital disclosure, such as narrative quality and strategic tone, would provide richer insight into how the market interprets and reacts to these signals. Comparative studies across regional markets or ASEAN economies would also help broaden the generalizability of the findings.

LIMITATION

This study uses a population of 230 observation data from 46 Basic Materials sector companies, but the observation sample becomes 132 due to outlier data. The study only focuses on companies in the Basic Materials sector and only considers data from 2019 – 2023. Additionally, firm performance is not used as a control variable in this study.

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DECLARATION OF CONFLICTING INTERESTS

The authors have declared no potential conflicts of interest concerning the study, authorship, and/or publication of this article.

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