THE INFLUENCE OF INTELLECTUAL CAPITAL ON INVESTMENT RECOMMENDATIONS

STEPHANIE SANTOSO 0900827433

ABSTRACT

Objectives
The paper examines to examine the relationship between intellectual capital and investors’ recommendations in Indonesian capital market. It also identifies which of intellectual capital’s building blocks affect investment recommendations significantly. Intellectual capital is becoming the major corporate strategic asset because it can create better financial performances and sustainable competitive advantage (Barney, 1991).

Method
Using 191 non-financial institutions listed in Indonesian Stock Exchange in the year of 2006 and 2007 as its samples, the author measures intellectual capital by using Value Added Intellectual Coefficient (VAIC) which calculates the efficiency of a company in utilizing its value added through its human capital, structural capital and capital employed. The regression analysis is used to examine the relationship between intellectual capital and investment recommendations.

Results
The study provides empirical evidence that intellectual capital, with its three building blocks, does not influence investment recommendations in Indonesian capital market.

Conclusions
The research found that there is no evidence of significant relationship between intellectual capital and investment recommendations in non-financial institutions listed in Indonesian Stock Exchange. This may imply that investors in Indonesian capital market have not realized how intellectual capital might enhance a company’s potentiality and therefore, it is not taken into account in making recommendations.

Keywords
Intellectual Capital, Value Added Intellectual Coefficient (VAIC), Investment Recommendations, Indonesian Stock Exchange (IDX)