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The Effect of Intellectual Capital, Debt to Equity Ratio, Total Asset Turnover and Current Ratio on Profitability in LQ45 Companies Listed on the Indonesia Stock Exchange

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Abstract

The purpose of this study is to obtain empirical evidence of Intellectual Capital, Debt to Equity Ratio, Total Asset Turnover, Current Ratio on Return on Asset listed on LQ45 the Indonesia Stock Exchange. The sampling technique used purposive sampling, the research samples obtained totaled 20 companies with quarterly research period from 2020-2022 so that there were 60 units of analysis. The research design was quantitative descriptive. The analysis technique in this research is multiple regression analysis method. The results showed that IC and TATO has a significant positive effect on Profitability, DER and CR have no effect on profitability. The implication of this research is that companies must pay attention to IC and TATO that can affect profitability so that company profitability can increase.

Keywords : Intellectual Capital, Debt to Equity, Total Asset Turnover, Current Ratio.

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INTRODUCTION

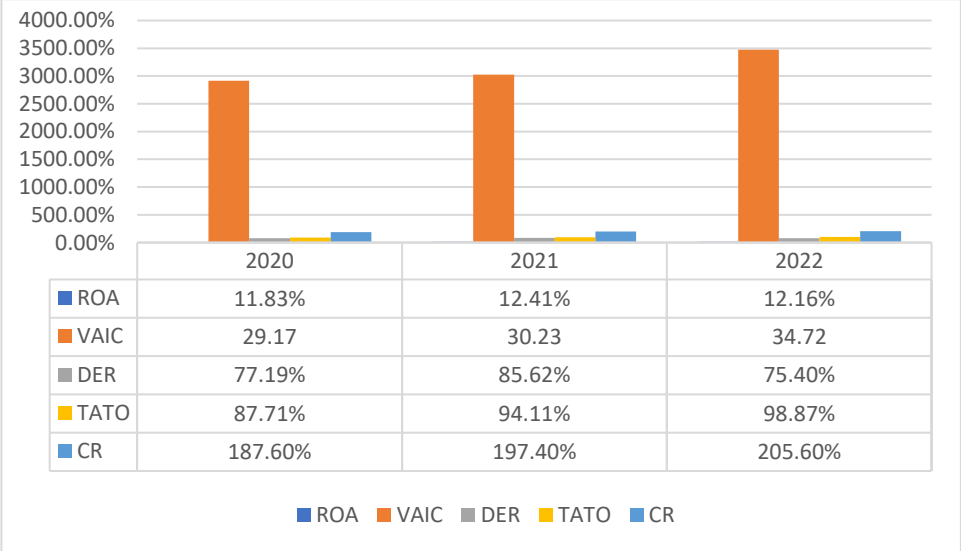
The world economy is currently experiencing a very drastic ebb and flow due to the COVID-19 pandemic, and this has an impact on companies from various countries including Indonesia. Companies in various fields experienced a decline in performance in an effort to increase company value. Even large companies that are included in the LQ45 company, with the highest liquidity and market capitalization in Indonesia, have experienced a decline in performance and share prices. Several studies show that the COVID-19 pandemic has had a negative impact on the performance of LQ45 index issuers in Indonesia, especially in the period from February to April 2020 (Rahmiyati, Sandari and Hariyani, 2022). There are several proxies that can be used to measure the level of profitability, as explained by Kasmir (2019), including: ratio profit margin, return on investment, return on equity, earning per share of common stock. Meanwhile, according to Hery (2018), profitability proxies include, Return on Assets, Return on

Equity, Gross Profit Margin, Operating Profit Margin, Net Profit Margin. In this study, the proxy used is Return on Asset (ROA).

According to Pulic (1998), the main goal in a knowledge-based economy is to create added value. To achieve this added value, it is necessary to properly measure physical capital (financial funds) and intellectual potential (represented by employees with all the potential and abilities inherent in them). Intellectual capital is part of intangible assets that can be used by companies to create a competitive advantage. Good implementation of intellectual capital can provide significant added value for companies (Sulistiyowati, 2021).

The Resource Based Theory, which Wernerfelt (1984) found, emphasizes that companies have resources that can provide competitive advantage and are able to direct companies to have good long-term performance. Valuable resources can be directed to create a competitive advantage, and support good long-term performance. Valuable resources can be directed to create a sustainable competitive advantage, which is difficult to imitate, transfer, or replace (Kurniawati, Rasyid and Setiawan, 2020). The company's performance in managing and utilizing its intellectual capital is reflected in innovation, competitive advantage, and long-term growth. Success in managing and optimizing employee skills, knowledge, research and innovation can help create more value-added products or services, differentiate the company from its competitors, and improve the company's financial performance, net profit and growth.

Graph 1. Average ROA, VAIC, DER, TATO and CR in LQ45 Companies Listed on IDX



	2020	2021	2022
ROA	11.83%	12.41%	12.16%
VAIC	29.17	30.23	34.72
DER	77.19%	85.62%	75.40%
TATO	87.71%	94.11%	98.87%
CR	187.60%	197.40%	205.60%

Source: idx.co.id (data processed)

Several gaps in previous research on the relationship of Intellectual Capital to Profitability have been identified. (Sulistiyowati, 2021), (Farihah and Setiawan, 2020), (Kurniawati, Rasyid and Setiawan, 2020), Rosiana and Mahardhika (2021) found that Intellectual Capital has a positive and significant effect on Profitability. On the other hand, Ningsih and Utami (2020), Wijaya and Sasmita (2023), found that Intellectual Capital actually has a significant negative influence on Profitability. In addition, Usman

and Mustafa (2019), Rahayu et al. (2020), show that Intellectual Capital does not have a significant influence on Profitability.

Ningsih and Utami (2020), and Sari et al. (2021), found that Debt to Equity Equity has a positive and significant influence on Profitability. However, Mattiara et al. (2020), Ritonga et al. (2021), (Juwita and Mutawali, 2022), show that Debt to Equity actually has a negative and significant influence on Profitability. Meanwhile, research by Sitohang and Wulandari (2020), as well as (Ambari, Indrawan and Sudarma, 2020) found that Debt to Equity does not have a significant influence on Profitability.

Oktapiani and Kantari (2021), as well as (Ichsani and Situmorang, 2022), found that Total Asset Turnover has a positive and significant influence on Profitability. On the other hand, Ng et al. (2022) found that Total Asset Turnover has a negative and significant influence on Profitability. Research by (Angelina *et al.*, 2020), (Mutiara and Gustiana, 2022), and Sari et al., (2019) shows that Total Asset Turnover does not have a significant influence on Profitability.Malau and Fithri (2021), (Juwita and Mutawali, 2022) found that the Current Ratio has a positive and significant influence on Profitability. However, research by (Astuti, Erawati and Ayem, 2021), Putri et al. (2022), Septiano and Mulyadi (2023) shows that the Current Ratio has a negative and significant influence on Profitability. In addition, research by (Indriastuti and Ruslim, 2020), Kurniawan, (2020), (Ahdi and Rakim, 2022), found that the Current Ratio does not have a significant influence on profitability.

In this study, financial performance is measured using profitability (Return on Asset) as a dependent variable. The independent variables used are Intellectual Capital, Debt to Equity Ratio, Total Asset Turnover and Current Ratio. Based on the phenomena and research gaps presented above, the author is interested in conducting a study entitled "The Effect of Intellectual Capital, Debt to Equity Ratio, Total Asset Turnover and Current Ratio on Profitability in LQ45 Companies Listed on the Indonesia Stock Exchange for the 2020-2022 Period".

Theoretical Foundations

Resource Based Theory

The Resource Based Theory, discovered by Wernerfelt (1984) and (Barney, 1991), reveals that a company's resources are under their own control, giving a company the ability to understand and implement strategies that improve its operational efficiency and effectiveness. This resource includes all assets, skills, organizational processes, company attributes, and information. Companies, as unique entities, have distinctive resources.

Intellectual Capital

Intellectual Capital, according to Roos (1997), includes all processes and assets that are not normally listed on the balance sheet, as well as all intangible assets (such as trademarks, patents and brands) that are measured using modern accounting methods. The Organization for Economic Co-Operation and Development (OECD) describes intellectual capital as the economic value of two categories of intangible assets of a company, namely organizational (structural) capital and human capital.

Debt to Equity Ratio

Debts from capital sources outside the company that are temporary and must be returned by the company. Debt is divided into two categories, namely short-term debt (less than one year) and long-term debt (more than one year) (Riyanto, 2016).

Total Asset Turnover

According to the explanation by Hery (2018), Total Asset Turnover is a ratio used to measure the effectiveness of the use of a company's total assets in generating sales

revenue. This ratio reflects how efficient the company is in generating sales from each unit of assets owned.

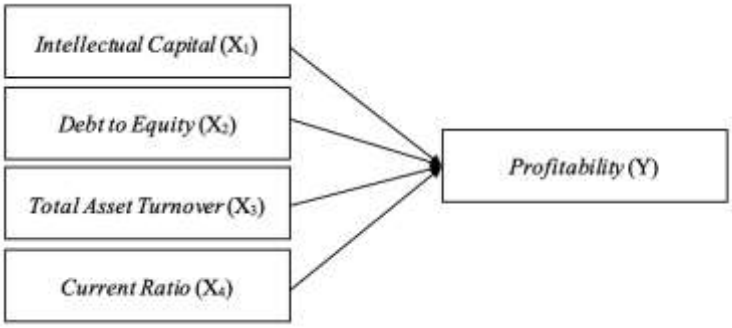
Current Ratio

The current ratio is used to assess a company's ability to pay short-term liabilities using short-term assets such as cash, inventory, and receivables. The current ratio provides insight into the company's operational efficiency in converting its products into cash. Companies that experience problems in collecting receivables will usually face liquidity problems (Sirait et al., 2021).

Profitability

Profitability, according to Kasmir (2019), is defined as the ability of an organization to generate profits or profits over a period of time. Profitability is the net result of a series of policies and decisions. Profitability can be established by calculating various relevant benchmarks.

Conceptual Framework



Hypothesis

H1 : Intellectual Capital has a significant positive effect on Profitability
H2 : Debt to Equity (DER) has a significant positive effect on profitability.
H3 : Current Ratio (CR) has a significant positive effect on profitability.
H4 : Total Asset Turnover (TATO) has a significant positive effect on Profitability.

RESEARCH METHODS

The object of the research was carried out on LQ45 companies listed on the IDX with the period 2020-2022. The research method used is a descriptive method with a quantitative approach using multiple regression analysis Classical assumption tests are carried out before hypothesis tests so that the test results meet the BLUE (Best Linear Unbiased Estimated) criteria. After that, hypothesis testing was carried out with a statistical t test, an F test, and a determination coefficient analysis. The model used in this study can be formulated as follows:

$$ROA = \alpha + \beta 1IC + \beta 2DER + \beta 3TATO + \beta 4CR + \varepsilon$$

Table 1. Operational Definition and Variable Measurement

Variable	Definition	Formula	Measure

Intellectual Capital	Intellectual Capital according to Roos (1997) includes all processes and assets that are not normally shown on the balance sheet and all intangible assets (trademarks, patents and brands) that are considered using modern accounting methods.	**VAIC = VACA+VAHU+ STVA** (Pulic, 1998)	Ratio
Debt to Equity Ratio	The debt ratio is calculated by comparing total debt with total assets (Brigham and Daves, 2014).	DER=Total Debt/Equity	Ratio
Total Asset Turnover	Hery (2018), explained that Total Asset Turnover is a ratio that has a use to measure the effectiveness of total assets.	**TATTOO = Sales/ Total Assets** (Fahmi, 2018) (Sugiarto, 2009)	Ratio
Return on Asset	Return on Asset is the comparison between profit after tax distributed with overall assets (Brigham and Houston, 2011).	ROA = profit after tax / total assets (Brigham and Houston, 2019)	Ratio
Current Ratio	According to Sutrisno (2017), the current ratio is a ratio that compares the current assets owned by the company with short-term debt.	CR = Current Assets / Current Liabilities (Sutrisno, 2017)	Ratio

Source: data processed by authors from selected books.

RESULTS AND DISCUSSION

Results of Descriptive Statistical Analysis

Table 2. Descriptive Statistical Results

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
ROA	60	.01	.52	.1155	.10055
VAIC	60	1.66	209.13	31.3757	39.60573
DER	60	.00	3.86	.7942	.84925
TATTOO	60	.10	3.15	.9355	.69943
CR	60	.24	8.00	1.9687	1.63110
Valid N (listwise)	60				

Source : SPSS 25.0 Output

Hypothesis Test

Coefficient of Determination (Adjusted R^2)

The value of the Adjusted R Square that was prepared had a regression model result of 0.380 or 38%. The ROA variable can be explained by 38%. by variables Intellectual Capital, Debt to Equity Ratio, and Total Asset Turnover, Current Ratio. while the remaining 62% of those that can be influenced are other factors that have not been studied.

Partial Test (T-Test)

The t-value test is used to measure how far an independent variable individually influences the variation of dependent variables (ghozali, 2018). The results of the t-value test underlie the preparation of a research model that can be formulated as follows:

$$ROA = 0.014 + 0.001VAIC + 0.038DER + 0.083TATO – 0.009CR$$

Table 2. t-Value Test Results

	Hypothesis	B	Sig	α	Result
H 1	IC has a significant positive effect on ROA.	0.001	0.007	0.05	Accepted
H 2	DER has no effect on ROA.	0.038	0.191	0.05	Rejected
H 3	TATO has a significant positive effect on the company's value	0.083	0.000	0.05	Accepted
H 4	CR has no effect on ROA.	0.009	0.278	0.05	Rejected

Source : Output SPSS 25.0 (Data processed by the author)

Discussion of Research Results

Intellectual Capital vs. Profitability

Based on the results of the T test in table 4.11, it is found that Intellectual Capital has a significant effect on the Profitability which is proxied by Return on Asset in LQ45 companies listed on the Indonesia Stock Exchange for the 2020-2022 period. This can be seen from the test results where the value of the regression coefficient of Intellectual Capital is 0.001 with a positive or unidirectional value and a significance of 0.007 < α 0.05. so that the first hypothesis (H_1) which states that Intellectual Capital has a positive and significant effect on the Return on Asset received (H_1 accepted). This result is in line with the Resource Based Theory found by Wernerfelt (1984) which states that companies have resources that can make companies have a competitive advantage and are able to direct companies to have good long-term performance. Valuable resources can be directed to create a competitive advantage, so that they can last for a long time and are not easily imitated, transferred or replaced. The results of the research are in line with the results of research by (Sulistiyowati, 2021) (Farihah and Setiawan, 2020) (Kurniawati, Rasyid and Setiawan, 2020); Rosiana and Mahardhika (2021) who found that Intellectual Capital has a positive and significant effect on Profitability. Ningsih and Utami (2020) (Damayanti, Wahyuni and Subaida, 2022); (Erfani and Nena, 2022); Wijaya and Sasmita (2023) found that Intellectual Capital has a significant negative effect on Profitability. Meanwhile, Usman and Mustafa (2019); Rahayu et al. (2020); Nurkhalizah and Diana (2022) Intellectual Capital has no effect on Profitability.

Debt to Equity Ratio to Profitability

Based on the results of the T Test in table 4.11, it was obtained that the Debt to Equity Ratio did not have a significant effect on the Profitability proxied by Return on Asset in LQ45 companies listed on the Indonesia Stock Exchange for the 2020-2022 period. This can be seen from the test results where the Debt to Equity Ratio has a regression coefficient value of 0.083 with positive and unidirectional values and a significance of 0.000 < α 0.05. so that the second hypothesis (H_2) which states that the Debt to Equity Ratio has a significant effect on the Profitability proxied by Return on Asset (H_2 is rejected).

An indication of the absence of the influence of debt policy variables (leverage) on profitability with ROA proxies is due to the absence of significant changes to the company's profitability level even though the company's debt level rises and falls. Based on the stakeholder theory found by Freeman (1984), in this study shareholders as stakeholders, shareholders want high profitability from the company, and indirectly the company will implement policies, one of which is debt policy management

The results of this study are in line with the research of (Maulita and Tania, 2018); Sitohang and Wulandari (2020); (Ambari, Indrawan and Sudarma, 2020) found that Debt to Equity has no effect on Profitability. However, Astuti et al. (2018); Violita and Sulasmiyati (2019); Ningsih and Utami (2020); Sari et al. (2021) found that Debt to Equity has a positive and significant effect on Profitability. Mattiara et al. (2020); (Lestari, 2020) Lutfiana and Hermanto (2021); Ritonga et al. (2021); (Juwita and Mutawali, 2022) found that Debt to Equity has a negative and significant effect on Profitability.

Total Asset Turnover on Profitability

Based on the results of the T test in table 4.11, the results of Total Asset Turnover have a significant effect on Profitability which is proxied by Return on Asset in LQ45 companies listed on the Indonesia Stock Exchange for the 2020-2022 period. This can be seen from the test results where the Total Asset Turnover has a regression coefficient value of 0.038 with positive and unidirectional values and a significance of 0.000 < α 0.05. so that the third hypothesis (H3) which states that Total Asset Turnover has a positive and significant effect on Return on Assets received (H3 accepted).The results of this study show that the Total Asset Turnover in LQ45 companies is quite high and can help companies increase their profitability. Total Asset Turnover (TATO) shows how effective a company is in using all assets to increase sales value and increase profits. The smaller the ratio, the uglier. The greater the total asset turnover, the better, because the more efficient all assets used to support sales activities (Ng, Chandra and Septaundari, 2022). The results of this study are in line with the research of Putra et al. (2020), Malau and Fithri (2021), Oktapiani and Kantari (2021), and (Ichsani and Situmorang, 2022), stating that Total Asset Turnover has a positive and significant effect on Profitability. On the other hand, Sinaga et al., (2020), Novita et al. (2022), Ng et al. (2022), stated that Total Asset Turnover has a negative and significant effect on Profitability. In addition, (Angelina *et al.*, 2020), (Mutiara and Gustiana, 2022), and Sari et al., (2019) Total Asset Turnover does not have a significant effect on Profitability.

Current Ratio to Profitability

Based on the results of the T test in table 4.11, it is obtained that the Current Ratio does not have a significant effect on the Profitability which is proxied by Return on Asset in LQ45 companies listed on the Indonesia Stock Exchange for the 2020-2022 period. This can be seen from the test results where the Current Ratio has a regression coefficient value of 0.009 with positive and unidirectional values and a significance of 0.278 > α

0.05. so that the fourth hypothesis (H_4) which states that the Current Ratio has a significant effect on the Profitability proxied by Return on Asset (H_4 rejected).

Current Ratio has no effect on profitability. A current ratio that is too high indicates the high amount of unemployed cash so that it is considered less productive. If the current ratio is too low, it will reduce the level of creditor confidence in the company and can result in a decrease in capital loans by creditors. Therefore, there is a possibility that manufacturing companies in the consumer goods industry sector in this study sample maintain the current ratio level so that no influence of the current ratio on profitability is found (Wanisih et al, 2021). The results of this study are in line with the research of (Indriastuti and Ruslim, 2020), Kurniawan, (2020), (Ahdi and Rakim, 2022) which found that the Current Ratio does not have a significant effect on Profitability. Sitohang and Wulandari (2020), Yuliani (2021), Malau and Fithri (2021), (Juwita and Mutawali, 2022)stated that the Current Ratio has a positive and significant effect on Profitability. However, Astuti et al. (2021), Putri et al. (2022), and Septiano and Mulyadi (2023) found that the Current Ratio has a negative and significant effect on Profitability.

CONCLUSION

This study aims to test independent variables consisting of Intellectual Capital, Debt to Equity Ratio, and Total Asset Turnover, Current Ratio to Return on Asset. The adjusted R Square has a regression model result of 0.380 or 38%. The ROA variable can be explained by 38%. by variables while those outside that can be influenced are remaining 62% by other factors that are not studied.

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