

THE IMPACT OF CAPITAL ON PROFITABILITY

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Abstract. This research examines the effect of Intellectual Capital and Working Capital Turnover on Profitability in Textile and Garment sub-sector manufacturing companies listed on the Indonesia Stock Exchange in 2016-2020. The population in this research is 21 companies. The sampling method was purposive to obtain a sample of 14 companies over the 5-year observation period to become 70 samples. The data analysis technique used is Multiple Linear Regression Analysis. The results showed that Intellectual Capital has a positive and significant effect on Profitability, Working Capital Turnover has a positive and significant effect on Profitability, and simultaneously Intellectual Capital and Working Capital Turnover have a significant effect on Profitability. This research contributes to illustrating the importance of both working and intellectual capital to increase profitability.

Keywords: Intellectual Capital, Working Capital Turnover, Profitabilitas

INTRODUCTION

The existence of the fashion industry that continues to grow causes textile and garment companies to become one of the industries that have enormous market potential. The growth in the fashion industry causes high competition among companies in the industry (Widhi & Suarmanayasa, 2021).

During the Covid-19 pandemic at the end of 2019, the fashion industry experienced a setback where several companies experienced a significant decrease in net profit. One of the companies that experienced a significant decline in profitability was PT Eratex Djaja Tbk. The company suffered a loss of USD 970,490, whereas, in the previous year, PT Eratex made a profit of USD 841,580. The same thing happened in several other companies, such as PT. Asia Pacific Investama Tbk and PT Argo Pantes Tbk. Apart from the pandemic, the main reason for the decline in profitability in the textile and garment industry is the rise in sales of imported clothing, which has affected the domestic industry. The large number of imported clothing products sold at meager prices makes it difficult for domestic producers to compete (Tobing, 2020).

Based on previous research, capital in the form of Intellectual Capital and Working Capital can be used by companies to increase

their profitability (Asare, Alhassan, Asamoah, & Ntow-Gyamfi, 2017; Gupta, Goel, & Bhatia, 2020; Tiwari, 2022). Intellectual capital can help businesses advance and inspire management or workers to enhance business operations for greater success. The high value of intellectual capital can be attained if the business consistently boosts productivity, gives its capital and human resources better opportunities, and can improve the management system and business structure, including the institutional and financial structures, to increase the company's potential revenue.

Intellectual Capital is generally measured using the VAIC (value added intellectual coefficient) developed by Pulic. Based on the relationships between the three primary components, namely Human capital, Capital employed, and Structural capital, this method can be used to assess how effective intellectual capital is in creating value (Value Added). VAIC can be obtained by adding up the value of VACA (Value added Capital Employed), VAHU (Value Added Human Capital) and STVA (Structural Capital Value Added) (Gunawan, Wiralestari, & Friyani, 2021).

Working Capital Turnover is another factor besides Intellectual Capital that can impact profitability. This variable explains how the business uses and controls its working capital. Businesses that effectively use their working capital to generate sales produce a quick or high turnover of working capital. The more quickly working capital is turned over, the better, as this can boost revenue and profitability. Comparing net sales to working capital is how working capital turnover is calculated. (M. T. Utami & Manda, 2021). In general, managers in businesses frequently need to pay more attention to intellectual capital, particularly the human capital component, because it is seen not to have a direct impact on business profitability. Therefore the novelty in this study lies in the intangible capital component to provide an overview of the company so that in the future, the company can focus on tangible and intangible capital to increase its profitability.

LITERATURE REVIEW

Grand Theory

This study will use agency theory as a grand theory to solve the problems that have been identified. Agency theory is the basic theory that underlies the company's business practices. Meckling & Jensen (1976) said that an agency relationship occurs when one or more individuals, or principals, hire another individual or organization, called an agent, to perform several services and authorize the agent to make decisions. In financial management, agency relationships occur between (1) shareholders and managers and (2) managers and debtors. Based on the theory above, it can be concluded that company management or agents must work in the interests of

shareholders or principals. One of the things that the principal wants is for the company to be in good condition and has large profits by managing the company or doing activities well. To prove this, the agent will make financial reports that contain information about how the company was in that period. For this reason, companies need to maximize the factors that can maximize profitability, one of which is tangible and intangible capital.

Intellectual Capital

Intellectual capital is a concept that was first introduced by Nassau William Senior in 1836 (Gupta et al., 2020). The concept of Intellectual Capital is a knowledge that can be converted into a value (Edvinsson & Sullivan, 1996). This study uses the value added intellectual coefficient method (VAIC™). According to (Gunawan et al., 2021) The value-added intellectual coefficient (VAIC) method developed by Pulic can provide information regarding the value creation efficiency of the company's tangible and intangible assets. This method is used to measure how and how efficient intellectual capital is in creating value based on the relationship of the three main components, namely (1) Human capital, (2) Capital employed, (3) Structural capital. This model begins with the company's ability to create value added (VA).

Academic literature provides evidence of two methods in measuring intellectual capital, first one is the survey method and the second one is Value added method (Tiwari, 2022).

According to (Gunawan et al., 2021) Value Added is the most objective indicator for assessing business success and demonstrating a company's ability to create value. Value Added can be calculated by reducing Output (OUT) which represents revenue, with input (IN) which includes all expenses used in obtaining revenue except employee expenses. The following formula can be used to calculate it:

$$VA = Out - In$$

Where:

VA : Value Added

Out : Revenue and other revenue

In : All expenses except employee expenses

The VAIC component consists of 3 (three) components, namely:

a. Value added Capital Employed (VACA)

According to Wijayani, (2017) The VACA indicator measures a unit of physical capital's value added. This ratio shows how much each capital employed unit adds to the value contributed by the firm. The following formula can be used to calculate VACA:

$$VACA = VA/CE$$

Where

VACA : value added capital employed

VA : value added.

CE : capital employed

b. Value Added Human Capital (VAHU).

According to Wijayani, (2017) Value Added Human Capital (VAHU) indicates how much VA can be generated with funds spent on labor. This ratio measures the contribution made from every rupiah invested in Human Capital to the value-added of the organization. The following formula can be used to calculate VAHU:

$$VAHU = VA/HC$$

Where:

VAHU : value added human capital

VA : value added.

HC : human capital

c. Structural Capital Value Added (STVA)

This ratio determines the quantity of structural capital required to generate one rupiah of value added and indicates how effective structural capital is at performing it (Malaya & Jiwa, 2018). The following formula can be used to calculate STVA:

$$STVA = SC/VA$$

Where:

STVA : structural capital value added

SC : structural capital (VA – HC)

VA : value added

d. Value Added Intellectual Capital Coefficient (VAIC)

According to Malaya & Jiwa (2018), Value Added Intellectual Capital Coefficient (VAIC) Value Added Intellectual Capital Coefficient (VAIC). indicates the company's intellectual ability or commonly considered as BPI (Business Performance Indicator). VAIC is the sum of the previous components: VACA, VAHU, and STVA.

Working Capital Turnover

According to Kasmir, (2018, hlm. 182) one of the activity ratios is Working Capital Turnover. This ratio is used to measure or assess the effectiveness of a company's working capital during a certain period. The formula for working capital turnover is:

$$\text{Working capital turnover} = \frac{\text{Net Revenu}w}{\text{Workig Capital}}$$

Profitability

Return on Assets (ROA) is used as an indicator to measure profitability.

$$ROA = \frac{EAIT}{\text{Total Asset}}$$

RESEARCH METHODOLOGY

This research is quantitative research using the associative descriptive method. The population

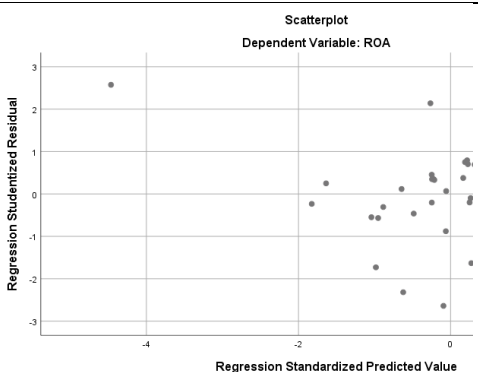
determined in this study is the textile and garment sub-sector manufacturing companies listed on the Indonesia Stock Exchange in 2016-2020, which obtained 21 companies. After determining the population, the next step is to determine the sample. The sampling technique in this study used nonprobability sampling, with the following criteria:

1. Textile and garment sub-sector companies listed on the Indonesia Stock Exchange in 2016-2020
2. Textile and garment sub-sector companies listed on the Indonesia Stock Exchange in 2016-2020 whose IPO (Initial Public Offering) was before 2016
3. Textile and garment sub-sector companies that publish annual financial reports on the Indonesia Stock Exchange during 2016-2020
4. Companies in the textile and garment sub-sector that closed their books as of December 31.

Based on these criteria, 14 textile and garment sub-sector companies were listed on the Indonesia Stock Exchange in 2016-2020, with 70 samples.

RESULT AND DISCUSSION

Before carrying out the regression test, it is necessary to carry out the classical assumption test. The test consists of a normality test, multicollinearity test, heteroscedasticity test and autocorrelation test.

Assumption classic Test	Standard	Result	Conclusion
Normality Test	> 0.05	0.17	Data Normal
Multicollinearity Test	$VIF < 10$	1.025	There is no multicollinearity
Heteroscedasticity	Scatterplot graph spread out		The regression model is homoscedasticity
Uji Autokorelasi	$DU < DW < 4$ -DU	DU : 1,6120 and 4-DU : 2,388	no autocorrelation issue

Multiple Linear Regression

Based on the results of the classical assumption test, all data is fit to be included in the multiple linear regression test.

Model	B	Std Error	t	Sig
Constant	-0,25	0.006	-3.957	0.00
VAIC	0.010	0.002	4.966	0.00
WCT	0.007	0.002	3.184	0.003

Based on the test results above, the multiple linear regression equation can be written as follows:

$$\text{ROA} = -0,025 + 0,010\text{VAIC} + 0,007\text{WCT}$$

RESULT ANALYSIS

The Effect of Intellectual Capital on Profitability

The data test result shows that Intellectual Capital has a positive and significant effect on the profitability. This relation shows by VAIC has $T_{\text{Statistics}} > T_{\text{Table}}$ ($4,966 > 1,68288$) and a significant value of 0.000. Therefore, H_0 is rejected, and H_a diterima is accepted, which means that intellectual capital has a significant positive effect on profitability.

The higher the VAIC value indicates the more effective management of capital, performance managers to employees, and structural capital, increasing the company's competitiveness and getting more profit. Intellectual capital is an intangible asset with three components, namely Human Capital, Structural Capital, and Employed Capital, which play a significant role in increasing the competitiveness of companies and are also used effectively to increase company profits (Wijayani, 2017)

Based on the findings of the tests, intellectual capital positively and significantly affects profitability. Accordingly, an increase in intellectual capital (VAIC) will be followed by an increase in profitability (ROA), as a high VAIC value denotes strong human resource performance and sound capital management. So that it can compete more effectively with other businesses. This study is consistent with studies done by (Asare et al., 2017; Gupta et al., 2020; Rosida & Aisyah, 2021; Tiwari, 2022; Wijayani, 2017). However, this research has not in line with the results of the study conducted by (Malaya & Jiwa, 2018; M. S. Utami, 2020).

The Effect of Working Capital Turnover on Profitability

The data test result shows that Working Capital Turnover has a positive and significant effect on the profitability. This relation shows by Working Capital *Turnover* that has $T_{\text{Statistics}} > T_{\text{Table}}$ ($3,184 > 1,68288$) and a significant value of 0.000. Therefore, H_0 is rejected, and H_a diterima is accepted, which means that Working capital turnover has a significant positive effect

on profitability.

Working Capital Turnover explains how a business uses and controls its working capital. A quick or high turnover of working capital is produced by businesses that effectively use their working capital to generate sales. The faster the turnover of working capital, the better it will be because it can increase profits (M. T. Utami & Manda, 2021)

Based on the results of the tests that have been carried out, it can be concluded that Working Capital Turnover has a positive and significant effect on profitability, so an increase in WCT (Working Capital Turnover) will be followed by an increase in profitability (ROA). A high working capital turnover value denotes a high capital turnover rate. For instance, a quick sales process will result in faster customer payment. Fashion that continues to grow very quickly makes customers want to follow the trend. For this reason, if companies in the textile and garment sector can accelerate their production by following developments in fashion trends and can sell their products efficiently, the working capital turnover will be even higher. Based on research results, companies can fasten the working capital turnover to increase their profits.

This study is consistent with studies done by Mardiah & Nurulrahmatiah, (2020) and (Wijaya, 2012) However, this research has not in line with the results of the study conducted by (Rosida & Aisyah, 2021; Widiyanti & Bakar, 2014).

The Effect of Intellectual Capital and Working Capital Turnover on Profitability

The data test result shows that Intellectual Capital dan Working Capital Turnover has a positive and significant effect on the profitability. It can be seen from $F_{Statistics} > F_{Table}$ ($20,347 > 3,23$) and a significant value of 0.000. Thus H_0 rejected and H_a is accepted. It means that intellectual capital and working capital turnover have a significant positive effect on profitability.

This study is consistent with studies done by Wijayani, (2017) and Mardiah & Nurulrahmatiah, (2020).

Conclusion

The results of this study indicate that the Intellectual Capital and Working Capital Turnover variables have a positive and significant effect on profitability in textile and garment sub-sector manufacturing companies listed on the Indonesia Stock Exchange in 2016-2020. The implication of this research is that textile and garment companies should pay attention to the adequacy and quality of capital in the form of intellectual capital and working capital turnover in their efforts to increase profitability. This study has limitations in the relatively short observation period and its focus which only covers textile and garment sector companies. For this reason, the researcher suggests further researchers to be able to add other variables such as CSR or company growth in future research.

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