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The Influence of Intellectual Capital on Return on Asset and Return of Equity in Companies in Jakarta Islamic Monetary Policy Index in Indonesia

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Abstract: This study is entitled *The Effect of Intellectual Capital on Corporate Financial Performance with Islamic Corporate Social Responsibility as an Intervening Variable in Companies Listed on the Jakarta Islamic Index for the 2019–2023 Period*. The research object consists of companies listed on the Jakarta Islamic Index (JII), focusing on the variables of Intellectual Capital, Human Capital Efficiency (HCE), Structural Capital Efficiency (SCE), and Capital Employed Efficiency (CEE) in relation to financial performance, which is proxied by Return on Assets (ROA) and Return on Equity (ROE). This study aims to analyze the effect of Intellectual Capital on corporate financial performance and to examine the role of intellectual capital efficiency components in improving corporate profitability. The research employs a quantitative approach using purposive sampling. The data used are secondary data obtained from companies' financial statements for the 2019–2023 period. Data analysis is conducted using regression analysis to examine the relationships among the research variables. The results indicate that Intellectual Capital has a significant negative effect on ROA and ROE. Human Capital Efficiency (HCE) has a significant positive effect on ROA and ROE. Structural Capital Efficiency (SCE) shows a positive effect on ROA but a negative effect on ROE. Meanwhile, Capital Employed Efficiency (CEE) has a significant positive effect on both ROA and ROE.

Keywords: Intellectual Capital 1, Return on Assets 2, Return on Equity 3, Jakarta Islamic Index 4, Monetary Policy 5.

INTRODUCTION

The rapid economic development in Indonesia has increasingly compelled companies to achieve better financial performance compared to previous periods. Economic growth, technological advancement, and globalization have intensified competition across industries, requiring firms to continuously adapt and improve their strategic capabilities. Alongside various innovations in the financial sector, individuals now have broader opportunities to

participate in corporate ownership through investment instruments available in the capital market. One of the most prominent and trending investment products in today's capital market is stocks. Stocks represent an individual's or institution's equity participation in a company or limited liability entity. They can also be understood as legal proof of ownership in a business entity (Wijayanti, 2020).

The increasing participation of investors in the capital market has heightened the demand for reliable indicators of corporate performance. Investors are no longer solely concerned with short-term profitability but also with sustainability, efficiency, and long-term value creation. Consequently, companies are expected to demonstrate strong financial fundamentals while maintaining competitive advantages in their respective sectors. This shift has led to a broader understanding of value creation, where intangible resources play a central role in determining corporate success. In this context, firms must not only manage tangible assets efficiently but also leverage knowledge-based resources to sustain growth and profitability.

In the modern economy, the success of a business entity is no longer determined solely by the ownership of physical or financial assets, but rather by its ability to manage intangible assets, collectively referred to as intellectual capital (Ngah & Ibrahim, 2021). Intellectual capital encompasses various forms of knowledge, expertise, relationships, and organizational systems which, when managed effectively, can create added value and enhance a company's financial performance. The growing relevance of intellectual capital reflects the transition from traditional production-based economies to knowledge-based economies, where innovation, information, and human expertise constitute key drivers of organizational competitiveness.

From a theoretical perspective, intellectual capital is considered a strategic resource that contributes to firm performance by improving operational efficiency, fostering innovation, and strengthening market positioning. Companies that effectively utilize their intellectual capital tend to exhibit superior adaptability, enhanced productivity, and stronger resilience against market uncertainties. Moreover, intellectual capital facilitates the development of unique competencies that are difficult for competitors to replicate, thereby generating sustainable competitive advantages. This perspective aligns with the resource-based view (RBV), which emphasizes the importance of valuable, rare, inimitable, and non-substitutable resources in achieving long-term performance outcomes.

Intellectual capital generally consists of three primary components: human capital, which includes individual skills, knowledge, and creativity; structural capital, which covers information systems, operational processes, organizational culture, and intellectual property; and relational capital, which relates to a company's external relationships, including customers, suppliers, strategic partners, and corporate reputation (Widyaningrum et al., 2022). Human capital represents the collective capabilities of employees, which directly influence innovation, problem-solving, and decision-making processes. Structural capital provides the organizational infrastructure that supports knowledge utilization and operational consistency. Meanwhile, relational capital reflects the firm's ability to establish and maintain beneficial relationships with external stakeholders.

These three components are believed to improve corporate efficiency and profitability, thereby potentially influencing financial performance indicators such as Return on Assets (ROA) and Return on Equity (ROE). The effective management of intellectual capital can enhance asset utilization, reduce operational inefficiencies, and strengthen strategic execution, ultimately contributing to improved financial outcomes. In highly competitive environments, intellectual capital becomes a critical determinant of organizational performance, particularly when traditional sources of competitive advantage are insufficient.

ROA and ROE are two essential ratios widely used to evaluate a company's financial performance. ROA measures the efficiency of a company's asset utilization in generating profits, while ROE reflects the returns delivered to shareholders based on the capital they have

invested. These ratios are particularly relevant for investors and analysts, as they provide insights into managerial effectiveness, operational efficiency, and value creation. Therefore, understanding the factors that influence these ratios, including the role of intellectual capital, is crucial in strategic management practices and financial decision-making. Analyzing the relationship between intellectual capital and financial performance can offer valuable implications for corporate strategy, investment decisions, and policy considerations.

METHODS

The research approach employed in this study is a quantitative approach. Quantitative research is a method that tests theories by examining the relationships among variables using research instruments, which typically consist of numerical data that can be analyzed through statistical procedures (Amruddin et al., 2022). The objects of this study are Good Corporate Governance and Intellectual Capital, which are examined for their influence on corporate performance, with Islamic Corporate Social Responsibility serving as an intervening variable. The study focuses on companies listed in the Jakarta Islamic Index during the 2019–2023 period. In this research, the sampling technique applied is purposive sampling, which involves selecting samples based on specific considerations or predetermined criteria relevant to the objectives of the study.

RESULTS AND DISCUSSION

The Effect of Intellectual Capital on Return On Asset (ROA)

This study demonstrates that intellectual capital has a negative (-) effect on Return on Assets (ROA). These findings indicate that an increase in intellectual capital has not been able to improve company profitability performance as measured through ROA. Thus, the hypothesis stating a positive effect of intellectual capital on ROA is not empirically proven in this research.

The negative effect can be explained by the characteristics of intellectual capital, which generally requires relatively large and long-term cost investments, such as employee training costs, information system development, and organizational innovation activities. These costs tend to increase the company's operational burden in the short term, which can suppress net profit and impact the decline of ROA (Pulic, 2000; Firer & Williams, 2003).

Furthermore, the results of this study indicate that companies have not been able to manage and utilize intellectual capital optimally to create added value that directly impacts asset utilization efficiency. High intellectual capital does not automatically improve financial performance if not followed by effective management strategies integrated with the company's operational activities (Chen et al., 2005).

The Effect of Intellectual Capital on Return On Equity (ROE)

This study shows that intellectual capital has a negative (-) effect on Return On Equity (ROE). These results indicate that the increase in knowledge-based capabilities, both from human resources and the company's organizational structure, has not been able to increase the rate of return received by shareholders.

The negative relationship indicates inefficiency in the process of transforming intellectual capital into net profit. Although companies have invested in developing employee competencies and organizational support systems, the economic benefits have not been fully realized in the form of increased equity-based profitability. This condition can occur because the output of intellectual capital is more oriented toward improving internal quality and company sustainability, rather than achieving short-term profits (Pulic, 2000).

In addition, the negative effect of intellectual capital on ROE can also be caused by increased operational burdens that must be borne by shareholders. The relatively high costs of knowledge development and innovation can reduce the profits available for distribution,

thereby lowering the equity return rate. This is consistent with the findings of Firer and Williams (2003) who stated that intellectual capital does not always contribute positively to traditional financial performance.

The Effect of Human Capital Efficiency on Return On Asset (ROA)

The results of this study prove that Human Capital Efficiency (HCE) has a positive (+) effect on Return on Assets (ROA). These findings indicate that the more efficient the company is in utilizing the knowledge, skills, and competencies of its human resources, the more optimal the company's ability to generate profits from its assets.

The positive (+) effect of HCE on ROA shows that human resources act as the main driver of company asset productivity. Employees who have adequate competencies and expertise are able to increase operational process effectiveness, accelerate decision-making, and minimize waste in asset usage. This condition allows the company to obtain higher profits without having to significantly increase the number of assets (Pulic, 2000).

In addition, a high HCE value reflects that the company's investment in human resource development has been managed efficiently. Training programs, competency improvement, and appropriate incentive systems can improve individual and organizational performance, thus directly impacting increased operational profits. Chen et al. (2005) stated that companies with good human capital management tend to have superior financial performance compared to companies with low human resource efficiency.

The Effect of Human Capital Efficiency on Return On Equity (ROE)

The hypothesis testing results show that Human Capital Efficiency (HCE) has a positive (+) effect on Return on Equity (ROE). These findings indicate that the efficiency of human resource utilization contributes directly to improving the company's ability to generate profits for shareholders. In other words, the higher the HCE value, the greater the rate of return on equity that the company can achieve.

The positive effect of HCE on ROE reflects that employees' knowledge, experience, and competencies are able to create economic value that exceeds the costs incurred by the company for human resources. Productive and competent employees play a role in improving decision-making quality, business strategy effectiveness, and achieving financial targets, thus impacting increased net profit which forms the basis for ROE calculation (Bontis, 1998).

In addition, human capital efficiency shows that the company is able to convert investment in employees into financial performance that benefits shareholders. Sveiby (1997) stated that human capital is the main source of value creation in knowledge-based organizations, as it plays a direct role in the innovation process and improving organizational performance. When human capital is managed efficiently, the company not only increases internal productivity but also strengthens its financial position.

The Effect of Structural Capital Efficiency on Return On Asset (ROA)

The research results explain that Structural Capital Efficiency (SCE) has a positive (+) effect on Return on Assets (ROA). These findings show that the effectiveness of the company's systems, procedures, and organizational structure plays an important role in increasing the ability of company assets to generate profits.

The positive effect of SCE on ROA indicates that intangible assets embedded in the organizational structure, such as information systems, work culture, standard operating procedures, and internal control mechanisms, are able to support more optimal utilization of physical assets. When the organizational structure runs efficiently, business processes become more coordinated and asset productivity can be increased without having to add new asset investments (Edvinsson & Malone, 1997).

In addition, structural capital efficiency reflects the company's ability to store and transfer organizational knowledge systematically, so it is not entirely dependent on certain individuals. A strong organizational infrastructure enables the company to maintain consistency in operational performance and reduce inefficiencies in asset usage. This is in line with Stewart's (1997) view that structural capital is the main foundation for sustainable value creation in organizations.

The results of this study also show that effective structural capital management can strengthen the relationship between operational activities and financial performance achievement. Integrated systems and clear work procedures help companies maximize output from their assets, thus directly impacting increased ROA. Roos et al. (2005) emphasized that efficient structural capital functions as a catalyst in improving operational efficiency and company financial performance. Thus, these findings provide empirical evidence that Structural Capital Efficiency is an important supporting factor in increasing asset-based profitability. Companies that are able to manage organizational structure and internal systems efficiently will have greater opportunities to increase ROA sustainably.

The Effect of Structural Capital Efficiency on Return On Equity (ROE)

Based on the research, empirical evidence was obtained that Structural Capital Efficiency (SCE) has a negative effect on Return on Equity (ROE). These findings show that increased structural capital efficiency has not been able to increase the rate of return received by shareholders. Conversely, strengthening organizational structure, systems, and procedures is correlated with a decrease in equity-based profitability.

The negative effect indicates that the company's investment in structural capital has not provided optimal added value for capital owners. The development of administrative systems, information technology, and complex internal controls often generates high implementation and maintenance costs. This cost burden directly reduces net profit which forms the basis for ROE calculation, thus impacting decreased equity returns (Young, 1998).

In addition, the results of this study reflect the potential for over-investment in organizational structure that is not fully aligned with the company's value creation strategy. Organizational structures that are too formal and standardized can limit managerial agility in responding to changes in the business environment, so opportunities for profit improvement become hindered. Kaplan and Norton (2004) stated that internal systems and processes that are not integrated with the company's strategic goals have the potential to reduce financial performance.

These findings also show that the contribution of structural capital to equity-based financial performance is indirect. According to Petty and Guthrie (2000), the benefits of structural capital will only be reflected in company performance if supported by synergistic management of other resources. Without such integration, structural capital tends to become a cost burden that reduces value for shareholders.

Thus, the results of this study provide implications that companies need to review the effectiveness of structural capital management so that investments in organizational systems and structures are truly able to increase company value. These results confirm that Structural Capital Efficiency has a negative effect on ROE, so the hypothesis stating a positive effect is not empirically proven.

The Effect of Capital Employed Efficiency on Return On Asset (ROA)

The regression analysis results show that Capital Employed Efficiency (CEE) has a positive (+) effect on Return on Assets (ROA) with a coefficient of 0.757468 and a significance value of 0.00000 < 5%. These findings indicate that increased efficiency in the utilization of capital employed by the company directly impacts increased profits generated from total assets.

These findings indicate that companies that are able to manage employed capital, both physical assets and financial capital, efficiently tend to have better ability to generate profits from their total assets.

The positive effect of CEE on ROA reflects that the capital invested by the company has been utilized productively in operational activities. Efficient use of fixed assets, working capital, and long-term investments enables the company to obtain maximum output with available resources. This is in line with Brigham and Houston's (2010) view that the effectiveness of capital utilization is an important factor in improving company profitability.

In addition, high Capital Employed Efficiency shows that company management is able to allocate capital to activities that provide optimal rates of return. Efficient asset management helps companies reduce unproductive costs and increase profit margins, thus directly impacting increased ROA. According to Kasmir (2019), asset-based profitability ratios are greatly influenced by the company's ability to manage invested capital effectively.

The results of this study also strengthen the view that physical and financial capital still play an important role in creating company financial performance, especially in the context of increasing asset-based profits. Grant (2016) emphasized that company performance excellence is not only determined by intangible assets but also by the company's ability to utilize its capital efficiently and sustainably.

Thus, these findings provide empirical evidence that Capital Employed Efficiency is an important determinant in increasing Return on Assets. Companies that are able to optimize the use of invested capital will have greater opportunities to increase profitability and overall financial performance.

The Effect of Capital Employed Efficiency on Return On Equity (ROE)

The research results show that Capital Employed Efficiency (CEE) has a positive (+) effect on Return on Equity (ROE) with a coefficient of 0.927167 and a significance value of 0.0009 < 0.05. These findings indicate that increased efficiency of capital employed by the company directly impacts increased profits received by shareholders.

This positive effect reinforces the assumption that optimal capital utilization is able to increase equity-based profitability. The more efficient the company is in allocating capital to productive operational activities and investments, the higher the net profit generated per unit of equity. This is in line with Ross, Westerfield, and Jaffe (2013) who emphasized the importance of capital management for creating value for shareholders.

In addition, effective CEE management helps companies reduce unproductive costs and maximize returns from available assets and capital, thereby increasing financial stability as well as ROE (Higgins, 2012). Thus, the results of this study provide empirical evidence that Capital Employed Efficiency is a significant determinant of ROE improvement and supports the company's strategy in increasing value for shareholders.

CONCLUSION

This study aims to examine the effect of Intellectual Capital on corporate financial performance, particularly as measured by Return on Assets (ROA) and Return on Equity (ROE), in companies listed on the Jakarta Islamic Index (JII) during the 2019–2023 period. Based on the empirical analysis conducted using regression techniques, several important conclusions can be drawn.

First, Intellectual Capital is found to have a significant negative effect on both ROA and ROE. This finding indicates that, within the observation period, increases in intellectual capital have not been able to directly enhance corporate profitability. The negative relationship suggests that investments in intangible resources—such as knowledge development, innovation, and organizational systems—tend to impose short-term financial burdens that may

reduce accounting-based profitability indicators. These results imply that the economic benefits of intellectual capital may require longer time horizons to materialize and may not be immediately reflected in traditional financial ratios.

Second, Human Capital Efficiency (HCE) demonstrates a significant positive effect on both ROA and ROE. This result highlights the critical role of human resources as key value drivers within the firm. Efficient utilization of employees' knowledge, skills, and competencies contributes to improved operational effectiveness, enhanced decision-making quality, and increased profitability. The findings confirm that human capital, when managed effectively, serves as a strategic asset capable of generating measurable financial benefits for both asset utilization and shareholder returns.

Third, Structural Capital Efficiency (SCE) exhibits differing effects on financial performance. SCE is found to have a positive effect on ROA, indicating that effective organizational systems, procedures, and infrastructures enhance asset productivity and operational efficiency. However, SCE shows a negative effect on ROE, suggesting that investments in structural capital may not immediately translate into higher shareholder returns. This outcome may be attributed to the relatively high costs associated with implementing and maintaining organizational systems and technological infrastructures, which may reduce net income in the short term.

Fourth, Capital Employed Efficiency (CEE) is identified as having a significant positive effect on both ROA and ROE. This finding underscores the enduring importance of efficient capital management, including the effective utilization of physical and financial resources. Companies capable of allocating and managing invested capital productively are better positioned to enhance profitability and deliver higher returns to shareholders.

Overall, the results of this study emphasize that not all components of intellectual capital contribute uniformly to financial performance. While aggregated intellectual capital may show negative associations with profitability, its efficiency components—particularly human capital and capital employed efficiency—play substantial positive roles. These findings provide important implications for corporate management, suggesting that firms should prioritize the effective and balanced management of intellectual capital components to achieve sustainable financial performance.

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