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The Impact of Intangible Assets on Financial Policy with Assets Size and Leverage as Control Variables

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ABSTRACT : *This research aims to determine the influence of intangible assets on financial policy with asset size and leverage as control variables in LQ 45 companies in 2018–2022. This type of research is causal research and uses quantitative data. The data used are intangible assets, asset size, leverage, and financial policy. The data source in this research is the financial reports contained in the Indonesian Stock Exchange (BEI) for 2018–2022, for 5 years. The population in this research is LQ 45 companies listed on the IDX, and we used 90 companies as research samples. The method of sampling utilized in this study is non-probability sampling. The findings of this research indicate that intangible assets have a favorable impact on financial policy.*

KEYWORDS - *intangible assets, financial policy, asset size, leverage*

I. INTRODUCTION

Company operations can run well with optimal financial resources; therefore, financial managers must be able to find and allocate internal funds (retained earnings and depreciation) and external funds (equity and debt) or even both [1]. Financial managers must be wise in making funding decisions because each source of funds has a different level of risk and return, which can influence the company's performance. The collaborative use of debt and equity is called capital structure. A capital structure that provides financial flexibility to address changing market conditions and company needs can support the company's long-term financial sustainability. Financial flexibility and sustainability are two of the values desired by investors because companies are considered capable of aligning financing and revenue projections. Financial decisions involving investment, financing, and dividends are interrelated and can have a significant impact on company performance. It is important for company management to understand the appropriate balance between investment decisions, funding policies, and dividend policies to achieve long-term goals and improve shareholder welfare. This financial policy needs to be realized so that the company's value increases (Jensen & Smith, 2005; and Brigham & Ehrhardt, 2000). Based on the above, the following are the financial policy conditions of the LQ45 Company:

Tabel 1: DER of LQ45 Company for 2018-2022

Year	Share Code				
	ANTM	**UNTR**	**UNVR**	**ACES**	**GGRM**
2018	19.10%	39.70%	175,3%	23,0%	53,1%
2019	127.90%	35,10%	290,9%	21,9%	54,4%
2020	68.40%	126,50%	315,9%	14,0%	33,6
2021	57,97%	34,40%	341,3%	12,6%	51,7%
2022	41,85%	58,80%	358,3%	11,4%	53,1%

Based on the table above, it shows that every year, ANTM, UNTR, UNVR, ACES, and GGRM companies can pay debts by maximizing existing assets. The entity's success in managing debt as a source of capital reflects good company performance. In other words, an entity's financial performance can be reflected in its debt management [4]. Myers & Majluf (1984) stated the pecking order theory, which describes a hierarchy in seeking corporate funds where companies prefer to use internal equity to pay dividends and implement growth opportunities.

Factors that can influence financial performance, financial policy, and company value are intangible assets, as seen from the market value of equity (MVE) and book value of equity. The gap between market value and book value encourages investors to consider other factors besides the book value of equity in financial reports, namely the market value of the equity. Lee & Lin (2005) found a strong correlation between intangible assets and asset size and leverage. Overall, identifiable intangible assets support debt financing in companies that lack tangible assets. Although these data sets provide estimates of the fair value of intangible assets for only a small proportion of companies,

Intangible assets have gained fundamental economic benefits for companies, causing businesses to rely more on intangible assets (Zambon et al., 2020; and Barker et al., 2020). The current state of the economy is heavily influenced by the creation and handling of intangible assets, which play a crucial role in a company's competitiveness and growth (Córcoles, 2010 and Zambon et al., 2020). These intangible assets have become the primary catalyst for change in the value creation process, as the economy has transitioned from relying on tangible assets to placing greater emphasis on intangible ones [10]. However, accounting rules have not been able to reflect this shift, resulting in a decline in the usefulness of financial reports [11].

Intangible assets serve as the basis for companies to utilize intangible knowledge in order to generate resources and wealth.[12]. In order to be profitable, a business must establish a competitive edge over its rivals [13]. actors such as market analysis, investment in equipment, and research and development play a crucial role in determining the level of success and profitability of a business [14].

Research related to intangible assets and financial policy has been conducted previously. Where intangible assets have a positive effect [15], [16] and [17]. However, several studies conducted by Alves & Martins (2014), Gamayuni (2015), and Zelalem, Abebe & Abebe Ali (2022) are of the opinion that intangible assets have no impact on financial policy. Observations regarding the effect of intangible assets on financial policy have been conducted by Qureshi & Siddiqui (2020), who concentrate more on technology companies in Pakistan, while this research concentrates on LQ 45 companies, which are listed on the Indonesian Stock Exchange.

The objective of this study is to enhance the current understanding by examining the influence of intangible assets on financial policies. This research aims to contribute to the advancement of accounting science by developing a more comprehensive theoretical understanding of the variables under investigation and providing valuable managerial implications for the implementation of LQ 45 corporate value.

II. LITERATUR REVIEW

2.1 Signaling Theory

According to the signaling theory proposed by Ross (1977) executives with superior knowledge about their company will be motivated to disclose this information to potential investors in order to boost their company's stock price. Hariningsih & Harsono (2019) explain that signaling theory involves signaling administrators to reduce information asymmetry. Signal theory is a strategy implemented by company leaders to communicate their perspective on the company's future prospects to investors, while also encouraging the dissemination of financial updates to external parties in order to reduce information asymmetry [22]. Spence (1973) claims that corporations that perform well use financial data to provide direction to the market. This study found that the cost of signal between bad news and good news is different. The cost of signal for bad news is higher than good news. However, the signals sent by bad news are unreliable signals, so managers publish personal data to minimize news gaps and transfer good signals regarding company performance.

2.2 Intangible Asset

Blair & Wallman (2003) intangible assets refer to non-physical elements that play a role in the creation of goods and services, or have the potential to generate positive outcomes for individuals or organizations in the future.. Most intangible assets cannot be traded. There is no organization or market that can buy or sell intangible assets [25]. According to Martins & Alves (2010), intangible assets are not a uniform group of assets. They are associated with significant risk and uncertainty, are unique to each company, and do not face competition in terms of usage or capital intensity. This characteristic makes most intangible assets different from other types of assets and cannot be traded [27]. Alexandra & Mihaela (2013) list several of the most important approaches to assessing intangible assets, namely based on market value, which is carried out using a direct valuation approach Aho et al. (2011) a calculated intangible value method has been devised to determine the value of intangible assets, based on their potential returns. The underlying principle of this approach is that investments in tangible assets can only generate industry average income, while any excess income can be attributed to intangible assets.

2.3 Financial Policy

The financial strategy of the corporation is guided by the liabilities-to-equity and dividend-to-payout ratios. These ratios measure the proportion of debt and equity utilized to finance assets. In the event of a high debt-to-equity ratio, the company must prioritize debt repayment over dividend distribution to maintain financial stability [30]. The debt-to-equity ratio, also known as capital structure, plays a significant role in a company's financial decision-making, while dividends are a reflection of a company's payment strategy [31]. The dividend payout ratio refers to the percentage of a company's net income that is distributed to its shareholders in the form of dividends.

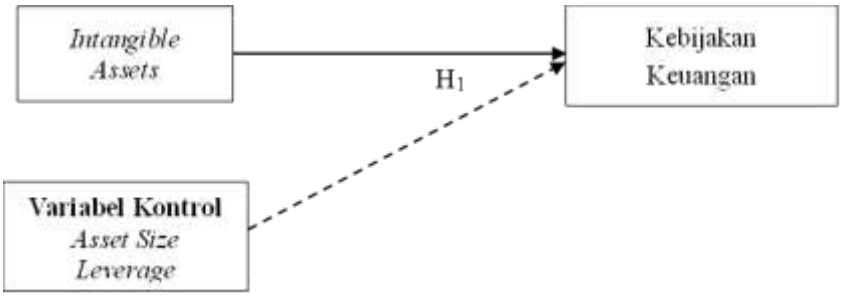

Figure 1 Research Framework

III. RESEARCH METHOD

Financial policy is the dependent variable in this study, whereas intangible assets serve as the independent variable and asset size and leverage as the control factors. According to Zelalem, Abebe & Abebe Ali (2022), the ratio of the value assigned to intangible assets to total assets is used to measure intangible assets; the yearly logarithm of total wealth is used to assess asset size; and total debt to total assets (DAR) is used to measure leverage. In the interim, see Gitman & Zutter (2015) for financial policy utilizing the debt-to-equity ratio (DEBT).

Variable Operational Definition

Variable	Measuring Variables	Scale
Independent Variable:		
Financial policy		
Debt To Equity Ratio (DER)	*Debt To Equity Ratio* = $\frac{\text{Debt}}{\text{Equity}} \times 100\%$	Ratio
Independent variable :		
Intangible Assets	*Market Value of Equity (MVE) – Book Value of Equity (BVE)*	Nominal
Control factors:		
Asset Size	The yearly logarithm of total wealth is used	Nominal
Leverage	*Debt Ratio* = $\frac{Total\ liabilities}{\text{Total assets}} \times 100\%$	Ratio

The LQ 45 Company's 2018–2022 financial reports, which are listed on the Indonesia Stock Exchange (BEI), are one source of research data. The data analysis will employ parametric statistics on 90 samples drawn from 225 populations. Sampling without probability was used as a sample selection method.

Descriptive statistics serve to establish the validity of this study model by combining each variable with the mean, minimum, maximum, standard deviation, and conventional assumptions [33]. In addition, multiple regression analysis is the statistical method utilized to evaluate the hypothesis [33]. The path analysis model intended for this study is:

Y = a + log b1X1 + log b2X2+ b3X3 + e .....(1)

Where:
a: Constant
Y: Financial Policy
b1: Intangible Assets Coefficient
X1: Intangible Assets
b2: Asset Size Coefficient
X2: Asset Size (Control variable)
b3: Leverage Coefficient
X3: Leverage (Variable control)

IV. RESULT AND DISCUSSION

4.1 Descriptive Statistics Test.

Table 2. Descriptive Statistics

Statistics					
		IA	AS	LEV	DER
N	Valid	90	90	90	90
	Missing	0	0	0	0
Mean		13.298444	1.378078E1	.419456	.653611
Std. Deviation		.6770091	.3551902	.1872460	.4872062
Minimum		10.8100	13.2600	.0200	.0670
Maximum		14.6000	14.6200	.7820	2.2320

The preceding table clarifies that there are 90 observations (N) in this inquiry. With a maximum aggregate asset size of 14.6200, the control variable asset size displays a mean value of 1.378. It shows that asset sizes are often relatively small. Internal business issues, including poor management, are to blame for this, as they influence the amount of assets owned by the organization. The company's asset size is unlikely to increase if management cannot effectively manage its assets. Unfavorable market conditions, such an economic recession, can also be a problem. These conditions might hinder a company's ability to grow its assets by preventing it from developing its business.

The control variable has a mean value of 0.4194 of the maximum total leverage, or 0.7820. That demonstrates that businesses typically employ very little leverage in their day-to-day operations. Low leverage can assist the business by lowering the financial risks it faces. Interest rates, market and industry conditions, and business financial management practices are among the factors that affect the leverage value. Businesses with more aggressive policies typically have greater leverage values, whereas those with more conservative policies generally have lower leverage values.

With a maximum total value of 2.2320, the DER variable (Y) has a mean value of 0.653. The following explains how businesses often finance their operations with a higher amount of debt than capital. This can be explained by an array of variables, including the company's rapid expansion, which necessitates a big amount of capital, low interest rates, which make debt less expensive, or the company's goal of maximizing profits by employing more debt. Theoretically, a low DER suggests that a business has high financial stability and is more capable of repaying its debts since it depends more on its own capital than loan. On the other hand, a high DER suggests that the business depends more on debt to fund its operations. The fact that the company must pay more interest and has a greater liability to creditors indicates that it is operating at a greater financial risk.

4.2 Model Test

4.2.1 Classic assumption test

Based on the classical assumption test, it was concluded that the study data has a normal distribution, as evidenced by Kolmogorov-Smirnov test scores greater than 0.05. Tests for heteroscedasticity, multicollinearity, and autocorrelation further demonstrate that the study variables are judged appropriate for multiple regression analysis.

4.2.2 Regression Analysis.

To assess whether or not the independent variable intangible assets (X1) has an influence on the dependent variable financial policy (Y), with asset size and leverage as control factors, the following is the multiple linear regression equation found in this study:

Table 3. Regression Analysis

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.274	1.866		.147	.884
	IA (X1)	.345	.068	.480	5.058	.000
	AS_Kontrol_1	-.318	.130	-.232	-2.447	.016
	Lev_Kontrol_2	.395	.243	.152	1.624	.108
a. Dependent Variable: DER						

Based on the table above, it is possible to deduce that the higher the intangible assets and leverage control factors, the higher the financial policy (DER); nevertheless, if the asset size control variable decreases, financial policy increases.

4.2.3 Hypothesis Testing Simultaneously

The results of simultaneous hypothesis testing (F test) aim to identify the effect of intangible assets on financial policy variables while controlling for asset size and leverage. The following are the outcomes of the simultaneous hypothesis test (F test):

Table 4. F-Test Model

ANOVA[b]						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	5.434	3	1.811	9.926	.000[a]
	Residual	15.692	86	.182		
	Total	21.126	89			
a. Predictors: (Constant), Lev, AS, AI						
b. Dependent Variable: DER						

According to the table above, intangible assets have a simultaneous influence on financial policy variables, with asset size and leverage serving as control factors.

4.2.4 Partial hypothesis test

The partial hypothesis test (T-test) results aim to examine the impact of partially intangible assets on financial policy variables, with asset size and leverage serving as control variables. The following are the t-test results:

Table 5. T-Test Model

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.274	1.866		.147	.884
	IA (X1)	.345	.068	.480	5.058	.000
	AS_Kontrol_1	-.318	.130	-.232	-2.447	.016
	Lev_Kontrol_2	.395	.243	.152	1.624	.108
a. Dependent Variable: DER						

The intangible asset variable has a sig value. 0.0000 < 0.05. This shows that the intangible asset variable has an influence on financial policy (DER). Thus, it can be stated that the hypothesis is accepted. The asset size variable as a control variable influences financial policy with a sig value of 0.016 < 0.05, while the other control variable, namely leverage, has no influence on financial policy where the sig value. 0.108 > 0.05.

4.2.5 Determination Test R^2

Model Summary[b]					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.507[a]	.257	.231	.4271623	1.872
a. Predictors: (Constant), Lev, AS, IA					
b. Dependent Variable: DER					

Based on the results of the R2 test, it is concluded that intangible assets contribute to financial policy (DER) by 0.257, or 25.70%, and the remaining 74.30% is influenced by other variables not mentioned in this research.

V. CONCLUSION

5.1 Conclusion

The research's conclusions establish which: 1) intangible assets have an impact on financial policy; and 3) the signaling theory, which plays a significant role in this study and suggests that management should advise investors about the management's assessment of the company's prospects and encourage them to share financial news with other parties to reduce information imbalances [22]. Companies with high intangible assets can send favorable signals to the market about their future growth prospects and competitive advantages. Investors may view the company as having more value as an outcome of its approach. Aside from that, the company's financial policies might provide signals to the market about its worth, financial performance, and growth prospects. These signals have the potential to influence market views as well as the company's overall financial success. To optimize corporate value and enhance financial performance, businesses must take signal theory into account while making financial decisions.

5.2 Suggestion

The author suggests 1) enhancing the management of intangible assets through periodic assessments of the held asset, through view of the results found. To guarantee that intangible assets retain their relevance and have the potential to significantly impact the financial performance of the business, regularly occurring asset audits can be conducted out. 2) Businesses must make effective and efficient use of their intangible assets to maximize their utilization. The value of intangible assets, such as patents, copyrights, and trademarks, can be increased by creating effective marketing plans.

5.3 Managerial Imp,ication

From the results of this research, the managerial implication that an entity can carry out is to ensure that intangible assets continue to increase to provide a positive signal to investors and increase company value, so as to increase the company's ability to obtain external funding at lower costs.

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