

Total Asset Turn Over, Net Profit, and Profitability on Sales Growth

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ABSTRACT

This study examines how sales growth can be influenced by total asset turnover, net profit, and profitability. By using financial report data listed on the IDX, and using multiple regression analysis methods, it is found that all independent variables affect the dependent variable simultaneously and partially. Total Asset Turnover (TATO), Net Profit Margin, and profitability play an important role in driving sales growth. TATO shows the efficiency of asset usage to generate sales, while Net Profit Margin reflects the company's ability to manage costs to gain profit from sales. Both together with profitability support the continuous increase in sales volume and value.

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1. INTRODUCTION

In recent years, Indonesia's manufacturing industry has shown resilience and significant growth, making a significant contribution to the country's economy. In the third quarter of 2023, the industry experienced growth of 5.02% of Indonesia's GDP, surpassing the national economic growth of 4.94% in the same period. Strategies such as "Making Indonesia 4.0", which focuses on increasing productivity, technological advancement, and human resource development, demonstrate the government's commitment to industrial development. The goal of this strategy is to make Indonesia a leading global manufacturing hub by 2030. Despite these positive trends, problems remain. Factors such as global economic uncertainty and fluctuating commodity prices can affect the profit margins of manufacturing companies. Rising input costs and competition from other manufacturing countries can affect profitability. However, the sector's steady growth and supportive government policies allow manufacturing companies to generate sustainable profits. (InvestinAsia, 2023; Kartasasmita, 2024; Wong & Ochoa, 2024).

Along with the increasingly tight competition in manufacturing companies, in addition to influencing the expected increased profitability, another thing that is desired is to fulfill demand and dominate the market with the characteristics and characteristics of the company being brought (Firmansyah et al., 2020). This can be in the form of company performance or achievements both in terms of financial and non-financial as stated in PSAK No. 1 of 2015 concerning the presentation of financial statements, namely financial statements are records of a company's financial information in an accounting period that can be used to describe the company's performance. One of the factors that can measure company performance is Profit (Ika et al., 2024).

Profit can represent the condition of the company's financial performance in managing assets, so that profit becomes the main goal of every company. Good financial performance indicates the success of the company in managing the company's assets so as to maximize profit (Firmansyah & Layli, 2023b; Sari et al., 2023). The profit can then be used to prosper the company and provide welfare for employees and stakeholders. Every company has profit as its main goal, so it is expected that profit will continue to increase over time. However, some companies are unable to maintain profit growth over a certain period (Maryati & Siswanti, 2022).

The condition of profit growth that is not in accordance with the realization occurred at PT Bukit Asam, decreasing by 51.42% to IDR 6.1 trillion throughout 2023 from the previous year which reached IDR 12.56 trillion, this was caused by a correction in coal prices and market fluctuations (Dewi, 2024):

Tabel 1. PT Bukit Asam Profit and Loss Report

	2022	2023
Profit and Loss	IDR 12.56 trillion	IDR 6,10 trillion

One of the factors causing the decline in PTBA's net profit was the decline in revenue in the period by IDR38.48 trillion, or down around 9.75% from IDR42.64 trillion in the same period the previous year. In addition, PTBA recorded a current year profit of IDR6.29 trillion in 2023, or lower than the previous year's profit of IDR12.77 trillion. Total equity fell to IDR21.56 trillion, while total liabilities increased to IDR17.20 trillion. Thus, PTBA's total assets fell to IDR38.76 trillion compared to the end of 2022, which was worth IDR45.35 trillion.

Considering how important it is to make a profit for every company, the PTBA issue should be of particular concern. Companies should analyze the current situation that caused the decline in profit to prevent such things in the future. Companies that can maximize their profits are the ones that succeed in market competition (Firmansyah & Layli, 2023a). This decrease in profit is not comparable to the increase in sales revenue in the previous year, which shows that the company's performance is less than optimal because it is unable to reduce costs during operational activities, which results in a decrease in profit from the previous year..

Given the importance of profit growth for the company itself and financial backers, the incident experienced by PTBA requires further analysis of the factors that cause the decline in profit. A person or institution that provides financial support to someone, such as an investor or financial backer. Continuously increasing profit growth will increase the value of the company because it makes it able to compete and survive in uncertain market conditions. Continuously increasing profit growth will also be an attraction for investors. Profit acquisition for each period can indicate the sustainability of the company in the long term. By using data on the company's financial performance to determine policies that are in accordance with business conditions, profit growth can be increased. Financial performance can help companies optimize the use of resources which are the result of management efforts to optimize asset management functions (Digdowiseiso & Santika, 2022; Firmansyah et al., 2023).

One indicator of a company's success in running its business activities is profit growth, which is also a ratio that shows the company's ability to increase profits compared to the previous period. Profit growth with a positive value indicates that the company has successfully managed its resources to generate profits, while profit growth with a negative value indicates that the company generated less profit than the previous period. The ability of a business to increase profits also attracts investors to invest. The percentage increase in profits during the accounting period is called profit growth. The increasing percentage shows how well management manages profits, so it can be a reason for investors to make decisions. Creditors consider profit growth when providing loans to businesses (Andrews, 2023; Figueroa et al., 2023).

This study uses an agency theory approach. The problem of declining corporate profits can be the basis for agency theory by focusing on the relationship between the owner (principal) and the manager (agent), who runs the company on behalf of the owner. When corporate profits decline, the

owner may feel that the agent is not doing a good job or even making decisions that are more in favor of personal interests than the interests of the company. In such a situation, declining profits may indicate that the manager and the owner disagree with each other. Agents do not always contribute directly to increasing corporate profits, but they may do things to benefit themselves, such as increasing operating costs for facilities or paying high salaries. In addition, agents may not be motivated to maximize corporate profits if there is no proper supervision or incentive system.

Razak et al. (2021) states that there are several factors that can affect profit growth in a company, namely Total Asset Turn Over (TATO), Net Profit Margin (NPM). TATO, or total asset turnover, is a ratio to measure the company's operational performance in supporting sales, and the TATO value shows how effectively the company manages assets to increase sales. The faster the asset turnover to increase sales, the greater the effect on income. The amount of return on assets shows the relationship between asset returns and profit growth, which means that if asset returns increase, profit growth also increases, and vice versa.

H1: Total Asset Turn Over has a positive impact on profit growth

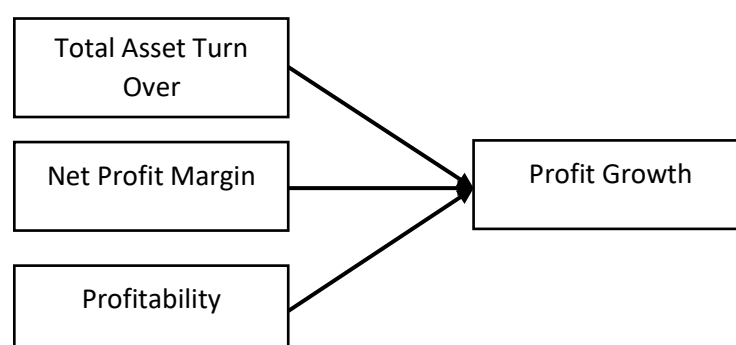
Net Profit Margin is a ratio used to determine how well a company can earn profit from sales activities. The Net Profit Margin value shows the effect of sales on the level of profit; a higher Net Profit Margin value indicates that more profit is earned from sales. Net Profit Margin is calculated by comparing net profit after tax with net sales. Net Profit Margin is one of the factors that helps increase profit growth. A higher Net Profit Margin value means greater profit growth. Management uses it as a positive signal to attract investors to invest. Investors then use this signal as a consideration to decide whether to continue investing or not. The condition of the company's net profit is indicated by the Net Profit Margin, which makes the company attract investors to invest. The Net Profit Margin value that increases gradually indicates that the company is more efficient in generating profits (Fricila & Sukoco, 2022). According to Razak et al. (2021) Net Profit Margin has an impact on profit growth:

H2: Net Profit Margin has a positive impact on profit growth

One important measure of how effectively management uses the company's assets to generate profits is profitability. In terms of profit growth, there is a relationship between the value of profitability assets and profit growth, meaning that the more efficiently a company uses its assets to generate profits, and this efficiency is often the main driver of profit growth over time because the company can generate more profits with the same amount of assets. Research by Chakkravarthy et al., (2024) found that profitability has a positive relationship with the company's profit growth.

Profitability is a financial metric that shows how effectively a company uses its assets to generate profits. Profitability can be calculated by dividing net income by total assets. This is because profitability not only shows how efficiently assets are used to generate sales but also how effectively those sales are converted into profits. Low profitability indicates that even though assets are being used efficiently to generate sales, profit margins may be thin, potentially limiting profit growth (Biehl et al., 2024). This relationship emphasizes the importance of maintaining healthy profit margins alongside efficient asset utilization, which guides management in strategic decisions to increase profitability. Journal entries related to sales revenue, cost of goods sold, operating expenses, asset purchases, and depreciation directly affect net income and total assets, thereby affecting profitability, which ultimately affects profit growth (Utami & Muslih, 2023). Also supported by research by Syairozi et al. (2022) which explains that there is profit growth.

H3: Profitability has a positive impact on profit growth



2. METODE

This study uses a quantitative approach. The data used in this study are secondary data from annual reports and financial reports. The population used in this study are all manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2018-2022. The sampling method uses a purposive sampling technique. The analysis technique in this study is by using the multiple linear regression analysis method of data quality testing, classical assumption testing, model testing, and hypothesis testing. The multiple linear regression equation is as follows.

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + e$$

Description:

Y: Profit Growth is measured by:

$$\Delta y_t = \frac{Y_t - Y_{t-1}}{Y_{t-1}}$$

Description :

Δy_t = Profit growth

Y_t = Current year's earnings after tax

Y_{t-1} = Previous year's earnings after tax

a : Constant

b_1, b_2, b_3 : Regression Coefficient

X_1 : Total Asset Turn Over (TATO), measured by:

$$TATO = \frac{Net\ Sales}{Total\ Assets}$$

X_2 : Net Profit Margin is measured by

$$\left(\frac{Net\ Profit}{Net\ Sales} \right) \times 100\%$$

X_3 : Profitability is measured by

$$\frac{Net\ Profit}{Total\ Asset} \times 100\%$$

e : Standard Error

3. RESULTS AND DISCUSSION

Classical Assumption Test

Table 2. Normality Test

Variable	N (Number of Samples)	Sig	Description
Unstandardized Residual	350	0,198	Normally Distributed

The results of the table show that the Asymp.Sig value (2-tailed) with a sig value of $0.198 > 0.05$, so the data is stated to be normally distributed.

Multicollinearity Test

Table 3. Multicollinearity Test

Variable	Tolerance	VIF (Variance Inflation Factor)	Description
Total Asset Turn Over	0,712	1,404	No multicollinearity
Net Profit Margin	0,250	4,003	No multicollinearity
Profitability	0,210	4,771	No multicollinearity

The results of the table show that all independent variables show tolerance values > 0.10 and VIF values < 0.10 . The conclusion is that there is no correlation between independent variables and no multicollinearity.

Heteroscedasticity Test

Table 4. Heteroscedasticity Test

Variable	Significance	Description
Total Asset Turn Over	0,485	There are no heteroscedasticity
Net Profit Margin	0,415	There are no heteroscedasticity
Profitability	0,689	There are no heteroscedasticity

The results of the table show that the heteroscedasticity test did not show heteroscedasticity because the significance value (sig.) was more than 0.05 ($p > 0.05$).

Autocorrelation Test

Table 5. Autocorrelation Test

dL	dU	DW	4-dU	Description
1,7382	1,7990	2,185	2,201	No autocorrelation occurs

The results of the table show that there is no autocorrelation, this can be seen from the value of $DU < DW < 4 - DU$, then $1.7990 < 2.185 < 4 - 1.7990$, from this value there is no autocorrelation..

Significance Test F

Tabel 6. F Significance Test

Fcount	Sig.
1,653	0,001

From the table it shows that the F value is 1.653 with a significance of $0.001 < 0.05$. This shows that all independent variables simultaneously affect the dependent variable.

Coefficient of Determination Test (R²)

Table 7. Coefficient of Determination Test (R²)

R	R Square	Adjusted R Square
0,461	0,213	0,206

From the table, the Adjusted R square (R²) value is 0.206. These results indicate that the independent variables in this study can explain 20.6% of the independent variables, while the remaining 79.4% is explained by other variables that are not in this study.

Partial Test T

Table 8. Partial Test T

Variable	Sig.	Description
Total Asset Turn Over	0,001	Supported
Net Profit Margin	0,001	Supported
Profitability	0,001	Supported

From the table, it is known that the significance value of the variables Total Asset Turn Over, Net Profit Margin and Profitability has a value of 0.001, therefore, the three variables partially support the influence of the independent variable on the dependent variable.

DISCUSSION

The Effect of Total Asset Turn Over on Profit Growth

This study proves that total asset turn over (TATO) has an effect on the company's profit growth. The high value of total asset turnover reflects the company's ability to utilize its assets to increase revenue. If revenue increases and is accompanied by efficient and effective asset management, the profit obtained will also increase, thus having a positive impact on profit growth. In relation to signal theory, information on total asset turnover is very important for investors as a consideration in making investment decisions. The higher the value of total asset turnover indicates that the company's assets are managed optimally, so that sales can be maximized and ultimately have an impact on increasing profits and profit growth.

Supported by proprietary research Firman & Salvia (2021) states that total asset turnover is used to assess the extent to which a company is able to generate sales from all of its assets. The higher the total asset turnover value, the better the company's ability to utilize its assets. Conversely, if the total asset turnover is low, it means that the company's asset utilization is less than optimal. This ratio measures the efficiency of the use of all assets during a certain period. A high total asset turnover value reflects the effectiveness of asset management by the company. Total asset turnover is included in the activity ratio group and is calculated by dividing the amount of sales by the average total assets. This ratio is used to assess how actively and effectively the company uses its assets to generate overall sales.

The Effect of Net Profit Margin on Profit Growth

Net profit margin is used to measure the amount of net profit obtained from a company's sales. If the net profit is high, this indicates that the company's sales are also running well. Net profit margin is a ratio that assesses a company's ability to generate net profit from its sales activities. This ratio

reflects the efficiency of all functions in the company, such as production, human resources, marketing, and finance. As one of the activity ratios, net profit margin measures the extent to which a company is able to earn profit at a certain sales level. A high net profit margin value indicates the company's effectiveness in generating profit at that sales volume, while a low value can indicate high costs or low income at that sales level. This margin also describes the level of operational efficiency of the company in reducing costs in order to increase its profitability. The larger the net profit margin, the more effective the operational performance of a company, and will have a positive effect on profit growth. (Widiasmara et al., 2022).

The Influence of Profitability on Profit Growth

High profitability reflects the company's ability to gain significant profits from sales or assets it owns. These profits are the main source for the company to reinvest, expand its business, increase production capacity, and develop product innovation. This proves that profitability has a positive influence on profit growth, because the more efficient the company is in generating profits from its operations, the greater the company's potential to develop its business and increase profits sustainably (Widiasmara et al., 2022).

4. CONCLUSION

Total Asset Turnover (TATO), Net Profit Margin, and overall profitability play an important role in influencing a company's sales growth. TATO measures how efficiently a company uses its assets to generate sales, so a high TATO value indicates optimal ability to maximize asset usage to increase sales volume. Meanwhile, Net Profit Margin reflects the company's effectiveness in managing costs and generating profits from each unit of sales; a high net profit margin indicates that the company is able to maintain a large enough profit from its revenue, which in turn can be used to support marketing strategies and market expansion to drive sales growth. Overall, good profitability indicates the company's financial health as well as its capacity to reinvest in product development and customer service improvement, so these three factors are closely related to driving sustainable increases in sales volume and value.

The limitations of this study are the limited scope of the study which only examines the manufacturing sector, while problems related to sales growth also occur in other sectors. Based on the results of the determination coefficient value on the adjusted R square, the results were only 20.6%, which means that 79.4% is still explained by other variables that were not studied in this study. This shows that in further research, it is advisable to expand the sectors studied, as well as use other variables that can affect profit growth in the company.

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