The Effect of Net Profit Margin and Return on Equity Toward Profit Growth

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Abstract - Profit Growth is one thing that is very important in many ways. Both for the benefit of the country and for the benefit of a company. To see the financial condition of a company, we can see it from the profit generated by the company. For this reason, this research was conduted to determine a relation between NPM and ROE toward Profit Growth on Food and Beverage company listed on Indonesia Stock Exchange period 2016-2019. The population in this study were 26 Food and Beverage company listed on Indonesia Stock Exchange in the 2016-2019 period while the sample was 16 Food and Beverage company listed on IDX. Based on the result, the test of simultaneously result with the statistical test show that the variable NPM and ROE simultaneously affect the Profit Growth. Partially, NPM has an influence toward Profit Growth and ROE has an influence toward Profit Growth. The magnitude of the effect of the predictor variable using the coefficient of determination as much as 41,3% while the remainig 58,7% is influenced by other variables outside this research model.

Keywords: Net Profit Margin (NPM), Return On Equity (ROE), Profit Growth

PRELIMINARY

The development of the economy in Indonesia is one of the most important things. The economic growth of a country is closely related to the welfare of its people, so it becomes a benchmark whther the country is in a goog economic state or not.

Based on cnbcindonesia.com, Badan Pusat Statistik (BPS) released data that Indonesia Economy in 2019 grow 5,02%, lower than the achievement in 2018 which amounted to 5,17%, in 2017 which 5,07%, and in 2016 which amounted to 5,03%.
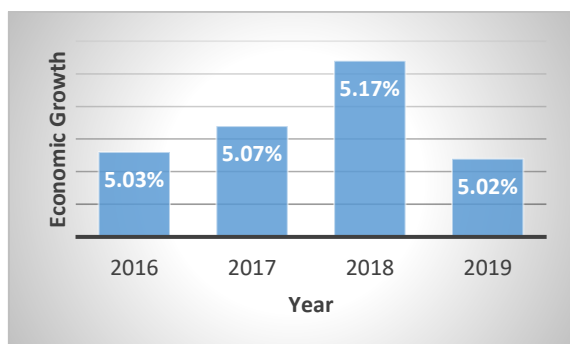

Figure 1. Economic Growth in Indonesia in 2016-2019

It can be seen in figure 1 that the economy in Indonesia always experiences an increase from 2016 to 2018. Whereas in 2019 there was a decline in the rate of economic development in Indonesia to only 5,02%. However, quoted from finance.detik.com, the economic growth rate misses the target set by Anggaran Pendapatan dan Belanja Negara (APBN) in the 2019 which is 5,3%.

During the first nine months of 2017, three of the four largest companies in the food and beverage sub sector recorded weaker net profit growth. However, the issuers of the consumer goods sector that had been underestmated turned out to show success in the third quarter of 2018. But the performance of the consumer goods industry sector on IDX has been increasingly bleak, since the beginning of the 2019 its performance has dropped by almost 20%, to be axact 19,31%.

Profit growth is one thing that is very important in many ways. If profit generated by the company continue to increase, then the financial condition in the company wll also improve. Conversely, if the profits generated by the company continue to decline, then the financial condition in the company will also get worse. A good achievement in certainly accompanied by a good strategy also in carrying out corporate planning. A ggod strategy will guide the company in getting a better profit so that the company can advance to a higher position and this is

one of the most important things because in general at this time people assess the company's performance from the profits generated because one of the main objectves to be achieved by companies is that profits continue to increase from year to year.

Profit that continues to incrase will provide many benefits to the company. Conversely, declining profits will also give many losses to the company because it can result in the undevelopment of the company and also the company will not be able to compete with other competitors both domestically and abroad.

Financial conditions and company conditions that can be seen from the financial statements are needed for business activities such as investors in decision making. Because basically investors will invest their funds in companies with high return on funds. So analytical tools are needed to estimate earnings income to achieve company target in the future. One analysis tool that is often done is by analysing the financial statement (Kasmir, 2018). The analytical tool that is often used is fnancial ratio analysis. To determine the company's financial condition and good performance, the results of the calculation of the financial ratio must be compared with prevous years (Mahaputra, 2012).

Basically, financial ratios consist of four parts, na Use mendeley according to the Template requested mely liquidity ratios, activity ratios, solvency ratios and profitability ratios. The financial ratios used in this study are profitability ratios. Profitability ratio used to measure company performance and the efficiency of a company in using its assets consists of operating performance ratios to evaluate profi margins from operating activities (Subramanyam & Wild, 2013)

In this research, the profitability ratio used to measure the magnitude of changes in profit in the company is Net Profit Margin (NPM). Net Profit Margin (NPM) is a ratio that shows the company's net income from sales. Net Profit Margin is a measure of profit by comparing the profit aftr interest and taxes compared to sales. The higer the value of Net Profit Margin, the higher the company's ability to generate net income from sales, which shows that the company is more effective and efficient, and of course this will affec the interest of investors to invest, so that company profits will continue to increase and profit targets that the company wants to achieve in the following year also increase.

Another profitability ratio used in this study is Return On Equity (ROE). Return On Equity (ROE) is used to measure profits generated from the perspective of shareholders. This ratio shows how much net income the company generates for each Rupiah for which funds are invested by shareholders (Wibowo, 2011). In addition, the amount of profits earned by the company is also influenced by the company in determining the right type of investment, because the higher ROE shows the position of the owner of the company is getting stronger due to the company's effectiveness and efficiency in using its capital to generate profits for shareholders (Ang, 2010).

This study used food and beverage sub-sector companies listed on the Indonesia Stock Exchange with the aspects examined in the form of annual reports for the 2016-2019 period. Because according to kemenperin.go.id, the food and beverage industry has become one of the mainstay manufacturing sectors in making a major contribution to economic growth in Indonesia. Achievement of the food and beverage industry has been recorded to have a consistent increase that continues to be positive.

The Ministry of Industry noted, throughout 2019, the growth generated from the food and beverage industry in quartal III reached 7.72% or exceeded the national economic growth which was at 5.02%. But that number has not met the set target of 8%. This is certainly also accompanied by profit growth in each food and beverage sub-sector company.

Table 1. Average of NPM, ROE and Profit Growth in Food and Beverage Subsector Companies Listed on The Indonesia Stock Exchange Periods 2016-2019

Variable	2016	2017	2018	2019
NPM	9,01	8,30	8,82	10,92
ROE	23,31	19,69	16,26	18,94
Profit Growth	39,67	0,97	3,63	44,30

Source: idx.co.id (processed by researcher, 2020)

Table 1.1 shows the condition of Net Profit Margin, Return On Equity and Profit Growth obtained by several food and beverage sub-sector companies. Based on the above table, it can be seen that the value of Net Profit Margin (NPM), Return On Equity (ROE), and earnings growth fluctuate.

There are several studies on the effect of financial ratios on earnings growth. Research conducted by Bionda & Mahdar (2017) states that simultaneously Net Profit Margin has a positive and significant effect on earnings growth. Supported by research also conducted by Wahyuni et al. (2017) that simultaneously has a positive and significant effect on earnings growth. However, this is contrary to the results of research conducted by Wardhani (2019) which states that Net Profit Margin has no significant effect on earnings changes.

Research conducted by Riyadi (2017) states that Return On Equity has a negative and significant effect on earnings growth. In contrast to research conducted by Nasution (2018) which states that ROE has a positive and significant effect on profit growth. While Safitri & Mukaram (2018) in the study stated that Return On Equity had no significant effect on earnings growth.

RESEARCH METHODOLOGY

This study aims to determine a relation of Net Profit Margin and Return On Equity toward the profit growth on food and beverage company listed on Indonesia Stock Exchange period 2016-2019.

The method used is descriptive statistics with quantitative data types based on theoretical testing composed of various variables, measurements involving numbers and analyzed using a statistical approach. Descriptive research is a research that used to answer the questions that discuss the status of the object of research at the time the study was carried out, or in other words, approval to be approved (Barlian, 2016).

There are three variables used in this study, consisting of two independent variables (X) and one dependent variable (Y). The independent variable (X) used is Net Profit Margin (NPM) and Return On Equity (ROE) while the dependent variable (Y) used in this study is Profit Growth.
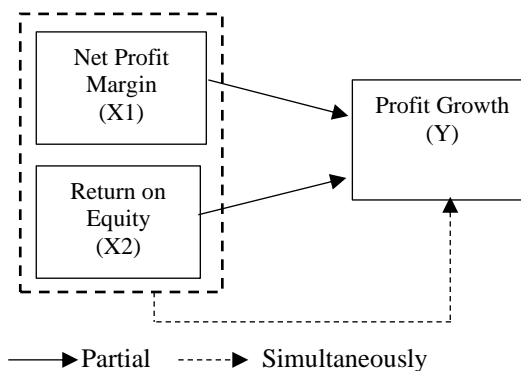
Table 2. Research Instrument

VARIABLE	SCALE	MEASUREMENTS
VARIABLE X		
NET PROFIT MARGIN (NPM)	RATIO	$Net\ Profit\ Margin\ (NPM)$ $= \dfrac{Net\ Profit}{Net\ Sales}$
RETURN ON EQUITY (ROE)	RATIO	$Return\ on\ Equity\ (ROE)$ $= \dfrac{Earning\ After\ Taxes}{Total\ Equity}$
VARIABLE Y		
PROFIT GROWTH	RATIO	$Y = \dfrac{Yt - Yt - 1}{Yt - 1} \times 100\%$

The population in this study is the food and beverage sub-sector companies listed on the Indonesia Stock Exchange for the period 2016-2018, consisting of 25 companies with sampling method is purposive sampling, so that the number of observations obtained as many as 16 companies.

The data used in this research is quantitative data. And the data used in this study is secondary data in the form of annual financial statements with the end of the accounting year on 31 December 2016, 2017, 2018, 2019. The data collection in this study was carried out with a technical study of documentation where data collection was obtained from the internet media by downloading through the official website of the Indonesia Stock Exchange to obtain data on published financial statements.

The preparation of this thesis requires a detailed framework for this research to be more directed. This framework can be described as follows:

Figure 2. Research Paradigm

Based on the formulation of the problem, the results of previous studies, and the mindset that has been described, the hypotheses in this study are as follows:

Hypothesis 1: Net Profit Margin has a significant effect on Profit Growth

Hypothesis 2: Return On Equity has a significant effect on Profit Growth

Hypothesis 3: Net Profit Margin and Return On Equity have a significant effect on Profit Growth

RESULT AND DISCUSSION

Descriptive Statistic provide an overview of data that can be seen from average value, standard deviation, maximum and minimum values and from all variables in this study, namely Net Profit Margin, Return On Equity and Profit Growth during the 2016 to 2018 research period presented in table 2 below this.

Table 3. Descriptive Statistical Analysis of Each Variable
Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
NPM	42	2,50	15,15	7,3593	3,14817
ROE	42	4,36	52,81	16,0200	8,91797
Profit Growth	42	-403,74	88,05	,9402	70,15534
Valid N (listwise)	42				

Source: data processes by SPSS, 2020

The independent variable Net Profit Margin (NPM) strengthened 42 samples. With an average value or an average value of 7.3593 and a standard deviation of 3.14817. The maximum value of 15.15 and the minimum value of 2.50. The independent variable Return On Equity (ROE) strengthened 42

samples. With an average value or an average value of 16,0200 and a standard deviation of 8,91797. The maximum value of 52,81 and the minimum value of 4,36. The dependent variable Profit Growth strengthened 42 samples. With an average value or an average value of 0,9402 and a standard deviation of 70,15534. The maximum value of 88,05 and the minimum value of -403,74.

To detect normality of data can be done by doing the Kolmogrov Smirnov Test. Data normality test is assisted by using the SPSS 25 system, and can be tabulated as follows:

Table 4. Result of Normality
One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		42
Normal Parameters[a,b]	Mean	,0000000
	Std. Deviation	53,73341611
Most Extreme Differences	Absolute	,110
	Positive	,108
	Negative	-,110
Test Statistic		,110
Asymp. Sig. (2-tailed)		,200[c,d]

Sources: data processed by SPSS, 2020

From the result of One-Sample Kolmogorov Smirnov Test it can be seen that the value of Asymp.Sig (2-tailed) is 2,000. Because the value is 2,000 > from 0,50, it can be concluded that data distribution is normal.

The result of Multicollinearity can be seen from the value of Tolerance and Variance Inflation Factor (VIF). Both of these measures indicate which each independent variable is explained by other independent variable. Multicollineairity testing, aided by the help of SPSS, is tabulated in table 5.

Table 5. Coefficients[a]

| Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	NPM	,863	1,158
	ROE	,863	1,158

Sources: data processed by SPSS, 2020

From the results of Multicollineairty Test the correlation value between independent variables are obtained:

For variable (X1) NPM, the Tolerance value is 0,863 more than 0,1 (0,863 > 0,1) and VIF value is 1,158 less than 10 (1,158 < 10), then the NPM variable can be expressed as not having symptoms of multicollinearity.

For variable (X2) ROE, the Tolerance value is 0,863 more than 1 (0,863 > 1) and VIF value is 1,158 less than 10 (1,158 < 10), then the ROE variable can be expressed as not having symptoms of multicollinearity.

Heteroscedasticity test aims to test whether in the regression model there is an inequality of variance from the residuals of one observation to another. One way that can be used to determine the presence or absence of heteroscedasticity symptoms is to look at the Scatterplot Graph. The following is a scatterplot pattern in this research:
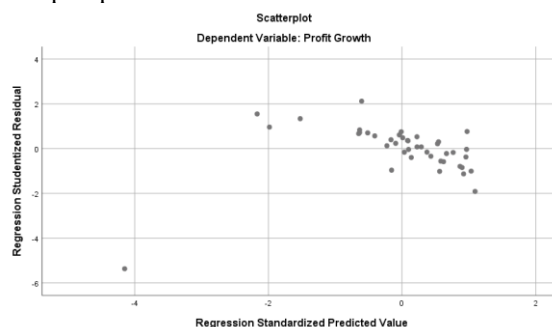
Sources: data processed by SPSS, 2020

Figure 3

Based on the scatterplot above, it can be seen that the data points spread above and below 0, and there is no clear pattern. Then it can be concluded that there are no symptoms of heteroscedasticity in this regression model.

Autocorrelation test aims to test whether a linear regression model correlates between confounding error in the period and error in the previous period. To test the presence or absence of autocorrelation symptoms, it can be detected by the Durbin-Watson Test (DW Test). There is no autocorrelation if the value of DW located between du to (4-du) or du < DW < (4-du). Autocorrelation testing assisted with the help of SPSS 25 System, is tabulated in table 6.

Table 6. Result of Autocorrelation Test
Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,643[a]	,413	,383	55,09397	1,605

Sources: data processed by SPSS, 2020

Based on the table above, it can be seen that the value of D-W statistic is 1,605, du values are sought in the distribution of DW table values based on the number of variables used (k = 2) and the number of samples (n = 42). Then obtained 1,600 < 1,605 < 2,400 which means there is no autocorrelation.

The result of Multiple Linear Regression Analysis is as follow:

Table 7. Coefficients[a]

| Model | | Unstandardized Coefficients | | Standardized Coefficients | | |
		B	Std. Error	Beta	T	Sig.
1	(Constant)	43,281	23,481		1,843	,073
	NPM	6,091	2,941	,273	2,071	,045
	ROE	-5,441	1,038	-,692	-5,240	,000

Source: Outut SPSS, 2020

Based on the table above, it can be seen that the multiple linear regression model can be formulated to:

Profit Growth = 43,281 + 6,091 NPM -5,441 ROE

The result of t Test or Partially can be seen from the table Coefficient Above. Based on the t test table with the criteria obtained the NPM value of $t_{count} > t_{table} = 2,071 > 2,021$ and obtained significant value $0,045 < 0,05$ then there is significant effect between Net Profit Margin toward Profit Growth.

Based on the t test table with the above criteria obtained the ROE value of $t_{count} < t_{table} = -5,240 < 2,021$ and obtained significant value $0,000 < 0,05$ then there is significant effect between ROE toward Profit Growth.

This F test aims to test the effect between variables together independently of the dependent variable in this research. If the probability value > 0.05 then it can explained that the independent variables together did not have a significant effect on the dependent variable, and vice versa. The study used SPSS 25 as shown in table 8.

Table 8. Result of F Test
ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	83414,161	2	41707,081	13,740	,000[b]
	Residual	118378,480	39	3035,346		
	Total	201792,641	41			

Source: data processed by SPSS, 2020

Based on the table above, obtained an F_{count} of 13,740 with a significance value of 0,000. Because it has a significance value < 0.05 which is equal to 0,000 where 0,000 < 0.05 shows that simultaneously Net Profit Margin (NPM) and Return On Equity (ROE) variables significantly influence the dependent variable Profit Growth. The value of F_{table} with the freedom degree in significance value 5% is df1=2 and df2= 39, so F_{table} is F(2;39) = 3,238.Then F_{count} and F_{table} are compared so that the value 13,740 > 3,238 is obtained that F_{count} is higher than F_{table}.

To find out the ability of Net Profit margin and Return on Equity affects toward profit growth, it can be seen from table 9.

Table 9. Result of Coefficient Determination Test (R^2) Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,643[a]	,413	,383	55,09397	1,605

Source: data processed by SPSS, 2020

From the table above, it can be seen that the correlation value is 0,643, then the coefficient of determination (R^2) obtained is 0,413. It means that there is an influence between the Net Profit Margin and Return On Equity toward Profit Growth by 41,3% while the remaining 58,7% is influenced by other variables that the authors did not involve in this studies.

From the test above, it can be concluded that the result of this research are:

1. Test results on the NPM variable on profit growth in the food and beverage sub-sector listed on the Indonesia Stock Exchange. Based on the analysis conducted in this study, that the Net Profit Margin (NPM) has a significant positive effect on Profit Growth.

   Based on a partial significance test, the effect of Net Profit Margin (NPM) on Profit Growth shows a significant figure that is 0.045 with a significance level value set at <5% ($\alpha = 0.05$). The significance value of 0.045 <0.05 indicates that the Net Profit Margin (NPM) variable has a significant effect on Profit Growth with a $t_{count} > t_{table} = 2.071 > 2.022$.

   Because the t_{count} value can be stated that the Net Profit Margin variable has a positive effect on Profit Growth in the food and beverage sub-sector companies listed on the Indonesia Stock Exchange for the period of 2016-2019. This means that the higher the value of Net Profit Margin (NPM), it will affect the higher profit growth obtained by the company, and conversely

the lower the value of Net Profit Margin (NPM) will also affect the lower the Profit Growth obtained by the company.

The results of this study support the research of Tri Wahyuni, et al (2017) which states that the Net Profit Margin (NPM) variable has a significant positive effect on Profit Growth. High Net Profit Margin (NPM) shows that the company is able to increase its business through the achievement of operational profit. With this profit achievement, investors will get a positive picture of the performance of the manufacturing company so that investors can expect a high return on their capital. Thus it can be said that profit growth will also increase. The data in this study indicate that NPM determines profit, this can occur because of high sales taken with operating costs that can increase revenue.

2. Test results on the Return On Equity (ROE) variable on profit growth in the food and beverage sub-sector listed on the Indonesia Stock Exchange. Based on the analysis conducted in this study, that the Return On Equity (ROE) has a significant negative effect on earnings growth.

Based on a partial significance test, the effect of Return On Equity (ROE) on Profit Growth shows a significant figure that is 0.000 with a significance level value set at <5% ($\alpha = 0.05$). The significance value of 0.000 <0.05 indicates that the Return On Equity (ROE) variable has a significant effect on Profit Growth with a $t_{count} > t_{table} = -5,240 > 2.022$. Because the t_{count} value, can be stated that the Return On Equity variable has a negative effect on Profit Growth in the food and beverage sub-sector companies listed on the Indonesia Stock Exchange for the period of 2016-2019. This means that the higher the value of Return On Equity (ROE), it will affect the lower profit growth obtained by the company, and conversely the lower the value of Return On Equity (ROE) will also affect the higher the Profit Growth obtained by the company.

The results of this study support the research of Bambang Riyadi (2017) which states that the Return On Equity (ROE) variable has a significant negative effect on Profit Growth. The higher Return On Equity (ROE) show the better performance of the company and impacts on the increase in corporate profit growth. In relation to the coefficient to the coefficient that are marked negative things that may be explained are ROE data has the relatively extreme average (smallest) possible outlier. And this can also be caused by the nature and pattern of investments made by the company is not right so that all assets are not used efficiently, the profits obtained are not optimal. This means that food and beverage sub sector companies that have high ROE ratios tend not to have high profit growth either. In addition, the capital owned is also used to cover debts owned by the company.

In this case, the company must manage all assets owned effectively and efficiently in order to generate maximum profits. And the income generated by debt can also be used to cover debt. A good company performance will lure investors because investors expect a high return on their capital through managing net profits to the capital owned by the company.

3. From the third hypothesis testing it was found that Net Profit Margin (NPM) and Return On Equity (ROE) had a significant effect on Profit Growth. The results of this study are in line with research conducted by Mutiah & Deannes (2018) which also states that the Net Profit Margin (NPM) and Return On Equity (ROE) variables have a significant effect on Profit Growth, which can be seen from the significance value of 0,000 where $0,000 < 0.05$.

It can be seen that the F_{count} of 13.740 with F_{table} obtained with a significance level of 5% df1 = 2 and df2 = 39 is 3.238. Then get $F_{count} > F_{table}$ which is 13,740> 3,238. Then it can be concluded that the Net Profit Margin (NPM and Return On Equity (ROE) significantly influence the Profit Growth.

This means that the amount of profit growth obtained by the company is influenced by the large number of sales and the effectiveness and efficiency of the company in managing the company's capital so that the profits obtained are also maximized. With maximum profits, more investors will invest their capital so that the company's value will be better.

CONCLUSION

Based on the research that have been conducted about the effect of Net Profit Margin (NPM) and Return On Equity (ROE) toward Profit Growth on Food and Beverage sub sector companies listed on Indonesia Stock Exchange period 2016-2019, in can be concluded as follow as:

1. Based on the research conducted in food and beverage sub sector company listed on Indonesia Stock Exchange period 2016-2019, it can be concluded that Net Profit Margin (NPM) has a significant positive effect toward Profit Growth.

2. Based on the research conducted in food and beverage sub sector company listed on Indonesia Stock Exchange period 2016-2019, it can be concluded that Return On Equity (ROE) has a significant positive effect toward Profit Growth.

3. Based on the research conducted in food and beverage sub sector company listed on Indonesia Stock Exchange period 2016-2019, it can be concluded that Net Profit Margin (NPM) and Return On Equity (ROE) have a significant positive effect toward Profit Growth.

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