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Maximizing Profit Growth: How Net Profit Margin And Return On Assets Interact With Firm Size

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ABSTRACT

This study aims to analyze the effect of net profit margin and return on assets on profit growth by adding firm size as a moderating variable in property and real estate companies listed on the Indonesia Stock Exchange. The population in this study comprises property and real estate companies listed on the Indonesia Stock Exchange from 2019 to 2023. The sampling technique is determined using purposive sampling based on criteria set by the researchers, resulting in a sample of 52 property and real estate companies. Panel data regression and moderated regression analysis (MRA) are used to analyze the data. The results of this study indicate that the net profit margin variable does not affect profit growth, while return on assets has a significant effect on profit growth. Furthermore, firm size can moderate the effect of net profit margin on profit growth. However, firm size cannot moderate the effect of return on assets on profit growth. Based on the results of this study, it is expected that future researchers can add other factors that may influence profit growth. In selecting moderating variables, it is hoped that future researchers will choose appropriate moderating variables to strengthen profit growth.

INTRODUCTION

Currently, Indonesia is experiencing many changes, one of which is the increasingly intense competition in the business world. This has led companies to compete with each other to continue to grow and innovate so that they can remain in existence. Company management must be able to manage the resources they have in the right way to achieve the company's goals (Sari & Idayati, 2019). One of the main objectives of the establishment of the company is to create value and optimize financial returns (Karno, 2024). The management hopes that the

company they lead will continue to grow in accordance with their expectations, such as increased sales followed by profit growth that matches or exceeds the target (Kasmir, 2019).

Assessment of the company's performance is important for various stakeholders such as management, investors, and creditors (Sari & Idayati, 2019). The company's performance can be seen by observing how the company's profits are increasing (As'ari & Pertiwi, 2021). The company's ability to generate large profits is essential for stakeholders to measure the company's success based on its future profit potential (Lestari et al., 2019). The company's good financial condition is indicated by positive profit growth, the more profit is generated, the better the company's performance (Rahayu, 2021). Increased profits show that the business has managed to obtain large profits from its operations. In addition, large profits also show how well a company manages its resources so that they can generate maximum profits (Karno, 2024).

One of the financial ratios used in this study is net profit margin (NPM). Net profit margin is used to measure how much net profit a company generates from its net sales (Thian, 2022). A high net profit margin indicates good performance for the company. In addition, if the net profit margin increases, investors will be more interested in investing because the profits generated by the business are larger (Lestari & Sulastri, 2021).

The next financial ratio used in this study is return on assets (ROA). Return on assets is useful for finding out how effective a business is in utilizing its assets to earn a net profit (Thian, 2022). A high return on assets indicates that the company's assets are being used well to generate profits. This indicates that the efficiency of asset management is positively correlated with the company's performance (Martini & Siddi, 2021).

In this study, firm size is used as a moderation variable. According to Karno (2024) the amount of assets owned by the company reflects the size of the company. Large companies tend to be more flexible to develop their operational activities so that they can generate more profits (Karno, 2024). Growing companies have more knowledge and ideas to build their business, which helps them achieve greater profits (As'ari & Pertiwi, 2021). The potential profit that a company can earn is proportional to the amount of assets it owns (Wigati, 2020).

This research focuses on property and real estate companies listed on the Indonesia Stock Exchange in 2019-2023. Property and real estate companies are companies that focus on providing and developing land for community residential purposes. This sector was chosen because the demand and supply in the property and real estate markets tend to increase every year as Indonesia's population grows. This creates attractive investment opportunities for investors as land and property prices generally increase from year to year. Thus, investor interest in meeting the growing housing needs in Indonesia is increasing.

Property and real estate companies strive to achieve optimal profits through sales operations. The profit is the main indicator to evaluate the company's performance and assess whether the company is succeeding or failing to achieve its operational goals. A high profit will indicate that the business can increase its inputs and outputs. Therefore, property and real estate companies need to analyze financial ratios that can provide an opportunity to achieve maximum profits.

Profit growth in 2023 increased from 57.42% to 89.64%, while net profit margin in 2023 decreased from -9.91% to -16.66%. Based on the signaling theory, the information provided by the company's management can be used as one of the perspectives from investors to assess opportunities for improving the company's finances (Brigham & Houston, 2014). According to Palayukan et al. (2023), information related to the increase in net profit margin provided by the company's management is considered a positive signal for investors because it indicates that the company is able to generate high profits from its operational activities. This positive signal attracts investors to invest their capital, which can then be used by the company to support operational activities and further increase profits.

In 2022, profit growth decreased from 121.66% to 57.42%, while return on assets in the same year increased from 1.93% to 2.34%. In addition, in 2023 profit growth increased from

57.42% to 89.64%, while return on assets in 2023 decreased from 2.34% to 1.95%. Based on the signaling theory, company management needs to release financial statements to reduce the imbalance of information contained in external parties (Brigham & Houston, 2014). According to Karno (2024), a high return on assets ratio shows the company's ability to generate profits from its operational activities, so it will give a positive signal to investors. This positive signal attracts investors to invest in the company, with the entry of new investments the company gets additional capital that can be used to support operational activities and drive more significant profit growth.

In this paragraph, the author would like to present the novelty of the research that in the research conducted by Endri et al. (2020) the variable of firm size is an independent variable, but in this study the size of the company is a moderation variable. The reason for using firm size as a moderation variable is because from several previous studies, firm size is often used as a moderation variable, but there is still inconsistency in the results of the research. Handayani & Angela (2023) stating that the size of the company is able to moderate, while Sulia et al. (2022) stating that the size of the company is not able to moderate. Research object Endri et al. (2020) namely food and beverage companies, which were listed on the Indonesia Stock Exchange in 2014-2018. Endri et al. (2020) it is recommended to use other research objects because the results may be different if different objects are used. The next novelty is the object chosen in this study, namely property and real estate companies listed on the Indonesia Stock Exchange in 2019-2023. The reason why researchers choose the object of research for property and real estate companies is because the demand and supply in the property and real estate market tend to increase every year as the population of Indonesia grows. This creates attractive investment opportunities for investors as land and property prices generally increase from year to year.

LITERATURE REVIEW

Profit Growth

The company's profit is very important because interested parties evaluate the success of the company based on the management's ability to generate profits in the future (Agustin et al., 2020). Interested parties hope that the company's profit will continue to increase from one period to the next (Dianitha et al., 2020). The high profit obtained by the company shows its ability to generate maximum profits through the company's operational activities, so that it is able to increase profits significantly (Karno, 2024). The higher the profit achieved, it can increase the confidence of investors to invest their capital in the company (Ihsan & Muslih, 2020). Profitability reflects a company's ability to generate profit by leveraging its total assets (Wicaksari et al., 2023).

To assess the company's consistency in generating profits, profit growth can be used as a relevant indicator (Kusoy & Priyadi, 2020). Maximum profit growth will result in success and success for the company (Agustinus, 2021). Profit growth refers to the increase or decrease in annual profit achieved by a company (Ningsih & Utiyati, 2020). Kusoy dan Priyadi (2020) In his research, he stated that profit growth that is always increasing indicates that the company is able to manage and utilize its resources to obtain profits, this reflects the company's good financial performance. Conversely, negative profit growth could indicate problems in resource management or unsatisfactory financial performance. Profit growth can be calculated by subtracting the profit in the current year by the profit in the previous year, then dividing the difference by the profit in the previous year (Susyana & Nugraha, 2021).

Net Profit Margin (NPM)

The profitability ratio is considered an indicator that is able to show the company's performance in obtaining profits by utilizing its resources (Thian, 2022). The profitability ratio can be used as a measure to assess the effectiveness of the company's performance, the company

that can maximize the profits obtained, the company's performance is good (Thian, 2022). The company is an organization that aims to generate profits through the sale of products to customers, with management that focuses on maximizing short-term and long-term profits and increasing returns for their owners (Thian, 2022).

Net profit margin is part of the profitability ratio, which is a metric used to describe the relationship between net profit and total sales (Dianitha et al., 2020). This ratio will measure the amount of net profit achieved by the company from a number of sales that have been made (Sulia et al., 2022). The efficiency of the company in using its operating costs can be shown by the net profit margin because it connects net profit with total sales (Susyana & Nugraha, 2021). A high net profit margin indicates that the company is able to obtain maximum profit at a certain level of sales (Lestari & Sulastri, 2021). An increase in net profit margin is considered an indication of an improvement in company performance, while a decrease in net profit margin is considered an indicator of poor company performance (Karno, 2024). Net profit margin is calculated by dividing the net profit earned by total sales (Lestari & Sulastri, 2021).

- H1: Net profit margin has a positive and significant effect on profit growth

Return On Assets (ROA)

The profitability ratio is a measure that describes the effectiveness of a company in utilizing all its assets and resources to earn profits (Sari & Idayati, 2019). Return on assets is one of the profitability ratios used to measure the effectiveness of a company in obtaining net profit against a certain level of assets (Lestari et al., 2019). Return on assets can be used to see the company's performance, the higher the return on assets ratio, the better the company's performance (Martini & Siddi, 2021). Managers will use their best effort to accomplish goals while assessing performance. Measuring the company's utilization of its assets (Return on Assets) is one technique to assess how well it generates profits (Wicaksari et al., 2023)

A positive return on assets indicates that the resources used optimally can provide benefits for the company, while a negative return on assets indicates that all resources used do not provide benefits or are even detrimental (Rivandi & Oktaviani, 2022). Thus, the higher the return on assets of the company, the stronger the position and the more efficient the use of the company's assets (Lestari & Sulastri, 2021). A high return on assets can be an indicator that the company's performance is good, the company is considered profitable and has bright prospects (Rahayu, 2021). Return on assets is calculated by dividing net profit by total assets (Sari & Idayati, 2019).

- H2: Return on assets has a positive and significant effect on profit growth

Firm Size

Firm size as a metric to group the size of a company can be measured through a number of factors including total assets, sales volume, stock value, and other factors (Purwanti, 2021). According to Damayanti dan Darmayanti (2022) there are two categories in grouping firm sizes, namely small-scale companies and large-scale companies. Small and large companies are always a consideration for investors because the size of the company affects the level of investor confidence. Large-scale companies tend to be better known by the public and investors. According to Anggita dan Andayani (2022) Large-scale companies have good long-term growth potential because they have large total assets. In addition, large-scale companies are considered more stable and have the ability to generate maximum profits compared to small-scale companies.

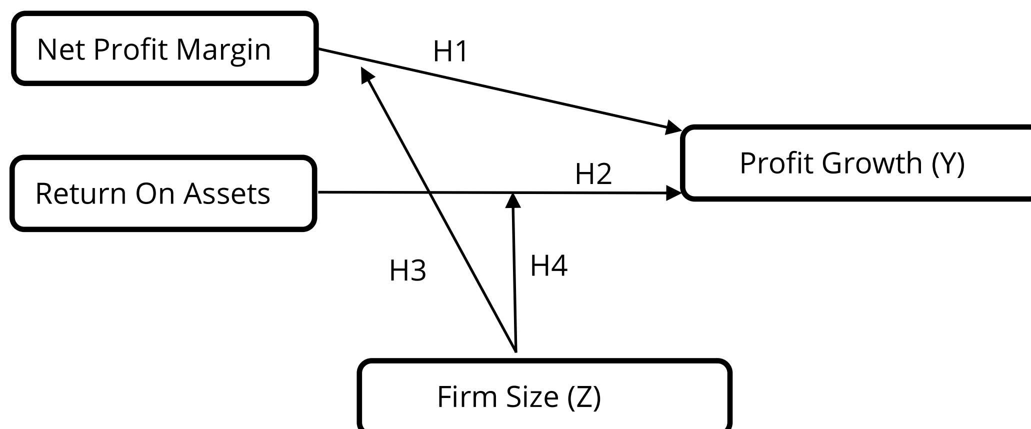
Anggita dan Andayani (2022) states that the total size of assets owned by a company has a direct impact on the company's ability to increase profits or profits, so that it can result in increased returns for the company. This means that large-scale companies are considered easier to obtain funding sources in the capital market because they have obtained good valuations

from investors. Dewi dan Ekadjaja (2020) in his research, he calculated the size of the company with the total assets owned by the company.

- H3: The firm size is able to moderate the influence of net profit margin on profit growth
- H4: The firm size is able to moderate the effect of return on assets on profit growth

Based on the explanation above regarding the influence of net profit margin and return on assets on profit growth moderated by the size of the company, the framework of thinking is shown as follows:

Figure 1 Conceptual Framework



METHODS

This research uses a quantitative approach, which is a systematic investigation of a phenomenon by collecting measurable data using statistical, mathematical, or computational techniques (Priadana & Sunarsi, 2021). The researcher uses a sampling technique in the form of non-probability sampling, which is a sampling technique where not all members of the population have the same opportunity to be part of the sample (Sugiyono, 2017). The method used is purposive sampling, a sampling technique in which samples are selected based on certain considerations (Sugiyono, 2017).

Data analysis was carried out using Eviews 12. According to Ansofino et al. (2016), Eviews (Econometric Views) It is a Windows-based computer program that is widely used for statistical analysis and econometrics of the time-series type. Eviews is designed specifically for time sequence analysis like other standard statistical software. Eviews also has the ability to conduct data exploration analysis, simulation, graph construction and simple hypothesis tests, both parametric and non-parametric.

The data analysis in this study consists of several stages. The initial stage involves descriptive statistical tests on sample data. The next stage is to carry out several panel data regression model estimation tests to find out the best model that can be used in this study. Next, classical assumption tests and panel data regression were carried out according to the selected model. After obtaining the regression of the panel data, it was continued with hypothesis testing using a partial test (t-test) and a determination coefficient test. In addition, moderation variables were tested using Moderated Regression Analysis (MRA).

The Moderrated Regression Analysis (MRA) test, according to Ghozali (2016), uses an analytical method that preserves the integrity of the study sample in an effort to control the influence of moderation variables. This study tested the moderating variables—firm size—in enhancing the relationship between the current ratio, total asset turnover, and return on assets

on profit growth using Moderated Regression Analysis (MRA). Modified Regression Analysis (MRA), often known as an interaction test, is a technique for assessing regression with moderation variables where the regression equation includes an interaction element (multiplication of two or more independent variables). The formula is as follows:

$$Y = \alpha + \beta 1X1 + \beta 2X2 + \beta 3Z + \beta 4(X1Z) + \beta 5(X2Z)$$

Information:

Y = Profit Growth
α = Constant
β1...β3 =Regression coefficients
X1 = Net Profit Margin
X2 = Return on Assets
Z = Firm Size
B4(X1Z) = The Interaction of Net Profit Margin on Firm Size
B5(X2Z) = The Interaction of Return on Assets on Firm Size

RESULTS

Panel Data Regression Analysis

Based on the results of the regression model test in table 1, it was found that the Chow test showed the results of the Fixed Effect Model (FEM), and the Hausman test also showed the results of the Fixed Effect Model (FEM). Therefore, it can be concluded that the best regression model in this study is using the Fixed Effect Model (FEM).

Table 1 FEM Method Panel Data Regression

Variabel	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.367	0.211	-1.742	0.082
X1	0.178	0.095	1.871	0.062
X2	44.056	4.491	9.811	0.000
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.498	Mean dependent var		0.283
Adjusted R-squared	0.369	S.D. dependent var		4.087
S.E. of regression	3.244	Akaike info criterion		5.374
Sum squared resid	2169.001	Schwarz criterion		6.114
Log likelihood	-644.698	Hannan-Quinn criter.		5.671
F-statistic	3.867	Durbin-Watson stat		2.271
Prob(F-Statictic)	0.000			

Source: Data Processed, 2024

Panel data regression with the Fixed Effect Model (FEM) method can be made as follows:

$Y = -0,367093 + 0,178197(X1) + 44,05659(X2)$

The regression model equation can be explained as follows:

1) The constant value is -0.367093, indicating that without the independent variables, net profit margin (X1) and return on assets (X2), the dependent variable of profit growth (Y) will decrease by 36.71%.

2) The coefficient value of the net profit margin variable (X1) is 0.178197, which means that if other variables remain constant and the net profit margin variable (X1) increases by 1%, the profit growth variable (Y) will increase by 17.82%.

3) The coefficient value of the return on assets variable (X2) is 44.05659, which means that if other variables remain constant and the return on assets variable (X2) increases by 1%, the profit growth variable (Y) will increase by 44.06%

T-Test

Tabel 2 T-Test

Variabel	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.367	0.211	-1.743	0.082
X1	0.178	0.095	1.871	0.062
X2	44.056	4.491	9.811	0.000

Source : Data Processed, 2024

The results of the T Test in table 2 show the influence of the variables net profit margin (X1), return on assets (X2) on the variable of profit growth (Y), the results can be described as follows:

1) Effect of net profit margin (X1) on profit growth (Y)

A coefficient value of 0.178197 was found by the T test on the net profit margin variable (X1), indicating a positive correlation between the net profit margin (X1) and profit growth (Y). The probability value of net profit margin (X1) is 0.0626 > 0.05, indicating that there is no relationship between net profit margin (X1) and profit growth (Y).

2) Effect of return on assets (X2) on profit growth (Y)

The results of the T test on the return on assets (X2) variable obtained a coefficient value of 44.05659 which means that return on assets (X2) has a positive effect on profit growth (Y). Return on assets (X2) has a probability value of 0.0000 < 0.05 which means that return on assets (X2) has a significant effect on profit growth (Y).

Moderrated Regression Analysis (MRA) Test

Tabel 3 Moderrated Regression Analysis (MRA) Test

Variabel	Coefficient	Std. Error	t-Statistic	Prob.
C	108.013	60.879	1.774	0.077
X1	-19.692	7.393	-2.663	0.008
X2	219.965	99.628	2.207	0.028
Z	-3.767	2.118	-1.778	0.076
X1Z	0.718	0.267	2.686	0.007
X2Z	-6.356	3.506	-1.812	0.071

Source : Data Processed, 2024

The results of the Moderrated Regression Analysis (MRA) test in table 3 show that:

1) Company size (Z) in moderating the effect of net profit margin (X1) on profit growth (Y)

The value of the X1Z coefficient of 0.718205 shows that the influence of X1Z on Y is positive with a probability value of 0.0078 < 0.05 (significant), meaning that the size of the company (Z) is able to moderate the effect of net profit margin (X1) on profit growth (Y).

2) Company size (Z) in moderating the effect of return on assets (X2) on profit growth (Y)

The value of the X2Z coefficient of -6.356392 shows that the influence of X2Z on Y is negative with a probability value of 0.0714 > 0.05 (insignificant), meaning that the size of the company (Z) is not able to moderate the effect of return on assets (X2) on profit growth (Y)

DISCUSSION

The Effect Of Net Profit Margin On Profit Growth

Net Profit Margin (NPM) is a financial ratio that shows the percentage of net profit from total sales. It measures how much profit a company makes from each unit of sale after deducting all expenses, including taxes and interest. A higher NPM shows the efficiency of a company in generating profits from its sales. Net profit margin (NPM) has no effect on profit growth (Y) based on the results of the T test conducted in this study. Although the coefficient value of 0.178197 indicates a positive relationship, which means that an increase in NPM is expected to increase profit growth, the probability value or p-value of 0.0626 is greater than the significance level of 0.05.

This indicates that the influence is not statistically significant. In this context, statistical insignificance suggests that while there are indications that an increase in NPM may contribute to increased profit growth, the association is not strong enough to be considered statistically significant.

A positive coefficient value of 0.178197 indicates that every increase of one unit in NPM can be expected to increase profit growth by 0.178197 units. However, since the p-value of 0.0626 is greater than 0.05, this result cannot be relied upon to declare a significant influence. This insignificance can be caused by a variety of factors, such as high data variability, inadequate sample size, or the statistical models used are not precise enough to capture the true relationship between NPM and profit growth.

Further, this insignificance indicates that there are other factors that may be more dominant in influencing profit growth. For example, variables such as total sales, operating costs, management policies, economic conditions, and competition in the industry may have a greater influence on profit growth than NPM. Therefore, it is important for companies not only to rely on NPM as a key indicator in measuring or predicting profit growth.

In business practice, these results show that while efficiency in generating net profit from sales is important, it is not enough to guarantee significant profit growth. Companies need to consider more holistic business strategies, including improving operational efficiency, product innovation, improving customer service, and diversifying markets to achieve sustainable profit growth.

Further research by considering other variables and using more comprehensive analytical methods may be needed to gain a better understanding of the factors that actually affect the company's profit growth.

The Effect Of Return On Assets On Profit Growth

A high return on assets indicates the company's ability to generate profits from all invested assets. The higher the return on assets of the company, the stronger its position and the more efficient the use of its assets. A company that is able to generate high returns from all its assets shows productive use of assets.

The maximum use of assets will also have an impact on the company's profit level. A high rate of return on assets describes a company's efforts to increase its sales or revenue, so it will increase profit growth through increased sales and revenue over a certain period. Therefore, the higher the return on assets, the greater the profit that the company can get.

In accordance with the signaling theory, when a company publishes its financial statements and shows a high return on assets ratio, it will give a positive signal to investors that the company is effective and efficient in utilizing its assets to generate profits. If a company can maximize the use of its assets, it shows the company's good performance in generating profits, which will be a positive signal for investors to invest their capital in property and real estate companies due to the greater rate of return on investment.

The capital invested by investors can be an opportunity for the company to expand its business so that it can obtain more profits resulting in profit growth.

The Effect Of Net Profit Margin On Profit Growth Moderated Firm Size

Research conducted by Handayani & Angela (2023) and Firdaus & Sulistiyo (2023) which states that the size of the company is able to moderate the influence of net profit margin on profit growth. The growth in the size of the company shows the strength and independence of the company in dealing with economic conditions, so it is more stable against external factors. Larger companies have more experience and resources to grow their ventures, supporting efforts to achieve higher profits. Large companies also tend to have larger sales volumes because they have significant assets, which can increase overall revenue.

According to the signaling theory, when a company publishes its financial statements and shows the size of the company on a large scale, it will give a positive signal to investors that the company's net profit margin is increasing, which contributes to higher profit growth. When investors see that a company has a large size and publishes transparent financial reports, they tend to interpret this as a positive signal.

Investors believe that the company has good management, effective business strategies, and potential for future growth. This can encourage investors to buy the company's shares, which in turn can increase the company's stock price and market value.

The Effect Of Return On Assets On Profit Growth Moderated Firm Size

The size of the company (Z) is not able to moderate the effect of return on assets (ROA) (X2) on profit growth (Y) based on the results of the research conducted. Although ROA is an important indicator that indicates a company's efficiency in managing assets to generate profits, the analysis shows that the company size variable does not significantly affect the relationship between ROA and profit growth.

This means that in both large and small companies, the effect of ROA on profit growth remains consistent and unchanged. In other words, company size does not strengthen or weaken the impact of ROA on profit growth. This insignificance can be caused by various factors such as data variability or the complexity of the relationships between these variables.

Therefore, company management needs to focus on improving the efficiency of asset use to drive profit growth without giving too much thought to the size of the company as a factor that moderates this relationship. High profitability indicates the financial health and success of a company, while low profitability may suggest issues with operational management or the company's cost structure (Wicaksari & Febriatmoko, 2023)

There are several studies that support the finding that company size does not always moderate the influence of financial variables such as return on assets (ROA) on profit growth. Research by Dogan (2013) with the title "Does Firm Size Affect The Firm Profitability? Evidence from Turkey" shows that company size does not always have a significant impact on a company's profitability.

This study found that operational efficiency and management strategy have more influence on profitability than company size. Similarly, research by Goddard et al. (2005) titled "The profitability of European banks: a cross-sectional and dynamic panel analysis" found that bank size does not consistently moderate the influence of variables such as efficiency and risk management on bank profitability, suggesting that size is not the main determinant of profitability.

In addition, research by Amato & Burson (2007) with the title "The effects of firm size on profit rates in the financial services" concluded that firm size does not have a significant moderation effect on profit rates in the financial services sector, where operational efficiency, innovation, and risk management play a more important role in determining profit levels. These studies support the finding that company size is not able to moderate the effect of ROA on profit growth.

CONCLUSION

This study aims to analyze the effect of net profit margin (NPM) and return on assets (ROA) on profit growth with company size as a moderation variable in property and real estate companies listed on the Indonesia Stock Exchange (IDX) for the 2019-2023 period. Based on data analysis, it can be concluded that net profit margin (NPM) has no effect on the profit growth of property and real estate companies. Meanwhile, return on assets (ROA) has a positive and significant effect on profit growth. The size of the company is able to moderate the influence of net profit margin on profit growth. This shows that companies with larger sizes have a better capacity to increase profit growth through increased NPM. Large companies tend to have more resources and better ability to manage their operations efficiently. However, the size of the company does not moderate the effect of return on assets on profit growth. This means that the effectiveness of the use of assets in generating net profit is not affected by the size of the company. In other words, both large and small companies have the same opportunity to increase profit growth through optimizing asset use.

SUGGESTION

Based on the findings of this study, several recommendations can be made for both business practitioners and future researchers. Companies, particularly in the property and real estate sector, should prioritize improving asset efficiency given the significant impact of Return on Assets (ROA) on profit growth. This could involve investing in technology, optimizing operations, and adopting better asset management practices to maximize profitability. Additionally, businesses should not solely rely on Net Profit Margin (NPM) as a predictor of profit growth. Instead, they should adopt a more holistic approach that includes strategies like operational efficiency, product innovation, market diversification, and enhanced customer service to achieve sustainable growth. For future research, it is recommended to explore other potential moderating variables, such as market conditions or management practices, to gain a more comprehensive understanding of what drives profit growth. Expanding the study to include different industries and using advanced analytical methods could also provide more robust insights and help address any data variability issues encountered in this study.

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