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The Effect of Asset Growth on Company Profitability with Sales Growth and *Leverage* as Supporting Variables

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Abstract: *A method commonly employed to assess a company's proficiency in generating profits involves the calculation of its profitability ratio. This ratio, in turn, can be affected by various factors, such as the growth of assets, sales expansion, and the level of leverage. The study utilised a population of 89 samples drawn from 18 retail sub-sector companies listed on the Indonesia Stock Exchange (IDX) over the period from 2018 to 2022. This research is characterised as explanatory in nature, employing a quantitative approach and utilising purposive sampling criteria. The data collection was conducted through a combination of literature reviews and observational studies, with the testing method involving multiple linear regression analysis, which was performed using the IBM SPSS version 20 software. (1) Partially asset growth has no effect on profitability; (2) Partially sales growth has no effect on profitability; and (3) Partially leverage affects profitability. Based on these findings, the authors suggest that company management should give due consideration to the leverage factor, as it has been demonstrated to have a significant impact on the company's profitability.*

Keywords: *Asset Growth, Leverage, Profitability, Sales Growth*

Abstrak: Salah satu cara untuk mengukur kemampuan kinerja suatu perusahaan dalam menghasilkan laba adalah dengan cara menghitung rasio profitabilitas yang dimilikinya. Rasio profitabilitas sendiri dapat dipengaruhi oleh beberapa faktor, diantaranya pertumbuhan aset, pertumbuhan penjualan, dan leverage. Populasi dan sampel yang digunakan berjumlah 89 sampel dari 18 perusahaan sub-sektor Ritel yang terdaftar di Bursa Efek Indonesia (BEI) tahun 2018-2022. Jenis penelitian berupa explanatory research dengan pendekatan kuantitatif dan kriteria purposive sampling. Metode pengumpulan data dilakukan dengan cara studi kepustakaan dan studi observasi, sedangkan metode pengujian dilakukan dengan analisis regresi linier berganda melalui aplikasi IBM SPSS versi 20. Adapun penelitian ini menghasilkan 3 temuan yaitu: (1) Secara parsial pertumbuhan aset tidak berpengaruh terhadap profitabilitas; (2) Secara parsial pertumbuhan penjualan tidak berpengaruh terhadap profitabilitas; dan (3) Secara parsial leverage berpengaruh terhadap profitabilitas. Dari hasil ini, penulis merekomendasikan agar manajemen perusahaan memperhatikan faktor leverage karena terbukti dapat mempengaruhi profitabilitas perusahaan.

Kata Kunci: Leverage, Pertumbuhan Aset, Pertumbuhan Penjualan, Profitabilitas

INTRODUCTION

Increasing a company's *profit* will create more opportunities for salary increases or employee bonuses. For the company itself, a rise in profit reflects the effectiveness of its management in utilising its resources. On the other hand, increasing profits will also add value in the eyes of investors and provide significant advantages in competing in the increasingly challenging business world (Suliyanti & Damayanti, 2022). The rise of *e-commerce* and the impact of the *coronavirus* in recent years has caused a decline in *profits and* even bankruptcy in several retail sub-sector companies in Indonesia.

One of the retail companies is Alfamart Store. Based on the author's observations, it was found that Alfamart's *profitability* in 2018 was 3.02%, which grew by 4.75% in 2019. However, in 2020, it decreased to 4.19% due to a decline in net profit caused by suboptimal asset utilisation. Nevertheless, in 2021 and 2022, profitability increased again to 7.23% and 9.46%, respectively. The data indicates that there have been fluctuations in profitability at Alfamart. One of the profitability ratios is measured by linking the profit generated from core business activities with the wealth or assets it holds (Setiyowati, et al., 2020).

In this study, *profitability* is measured by ROA (Return on Assets), which reflects the contribution of assets in generating net income (Hery, 2020). *Profitability* itself is influenced by several factors, one of which is asset growth (Setiyowati, et al., 2020). Other researchers (Suliyanti & Damayanti, 2022) suggest that sales growth is a factor affecting *profitability*. Additionally, other studies indicate that leverage is a factor influencing profitability (Dewi, et al., 2020).

The first factor that affects profitability is asset growth. Assets are resources owned by the company, both at a specific point in time and over a given period (Kasmir, 2023). The greater the total assets, the higher the operating results or profits generated, which serves as a positive signal to external parties (Mariani, 2019). However, the effect of assets on *profitability* still has different findings in existing research. On the one hand, asset growth affects *profitability* (Afrianti & Purwaningsih, 2022). On the other hand, different research results were obtained by (Alfindo Hm, 2022) which stated that asset growth had no effect on *profitability*.

Assets in a company can be of particular value to investors despite previous research findings that state that they are not significant. The lack of influence between assets and *profitability* (Alfindo Hm, 2022) is interesting to reconsider, given the common perception among investors that large companies must possess significant assets, and that a large asset base indicates a healthy company. Other companies in the retail sector, such as Matahari Store, are seen planning to open 10 new stores next year, following the closure of several stores that were considered less profitable over the past five years. This is a positive signal, as it will expand the brand portfolio, assets, and profits within the sector.

Related to the main problem, namely *profitability*, there are other things that are no less important, namely sales because in previous research from (Widhi & Suarmanayasa, 2021; Citarayani, et al., 2020) stated that sales growth affects *profitability*. Sales growth is the company's ability to increase profit margins and company sales (Hery, 2019). Another thing that makes it important is that sales growth from year to year shows that the demand for merchandise is increasing so that the company is able to generate high profits (Wulandari, 2021).

Finally, the factor that affects *profitability* is *leverage* proxied by *Debt to Equity Ratio* (DER). DER is the balance between the debt owned by the company and its own capital (Sutrisno, 2017). *Leverage* (DER) as a supporting variable is very important to add to this research because the higher the *leverage* ratio, the greater the trust of outsiders, especially investors in the company, which of course will increase the acquisition of funds and company profits (Dewi, et al., 2020). Previous research shows that *leverage* (DER) affects *profitability* (Murthi, et al., 2021; Putri & Kusumawati, 2020).

As stated earlier, asset growth, sales growth, and *leverage* in a company are seen as symbols of the company's management success in achieving profits. The main problem in the study is the company's *profitability* which is influenced by asset growth. This time the author adds supporting variables in the form of sales growth and *leverage* as factors that affect *profitability*. In addition, observations in existing research often juxtapose assets, sales, and debt to stock price issues. However, on this occasion the author juxtaposes it with the problem of company *profitability* proxied by ROA. The objectives in this study are: (1) To determine the effect of asset growth on company *profitability*; (2) To determine the effect of sales growth on company *profitability*; and (3) To determine the effect of *leverage* on company profitability.

METHOD

The type of research in this study is quantitative (Mulyanto & Wulandari, 2019). The data used consists of annual financial reports from retail sub-sector companies for the period 2018-2022, sourced from the official website of the Indonesia Stock Exchange (IDX). A 5% significance level was applied, tested using the *IBM SPSS version* 20 application. The sampling technique employed was based on the non-probability sampling method and purposive sampling technique (Mulyanto & Wulandari, 2019). Initially, this technique resulted in a sample size of 90 annual financial reports, but after the data was transformed into the Cochrane Orcutt Lag form, the number was reduced to 89.

There are 4 variables in this study, namely: (1) Exogenous Variables Asset Growth, Sales Growth, and *Leverage* proxied by DER; and (2) Endogenous Variables Profitability proxied by ROA. The framework and hypothesis of the influence between variables in this study are as follows:

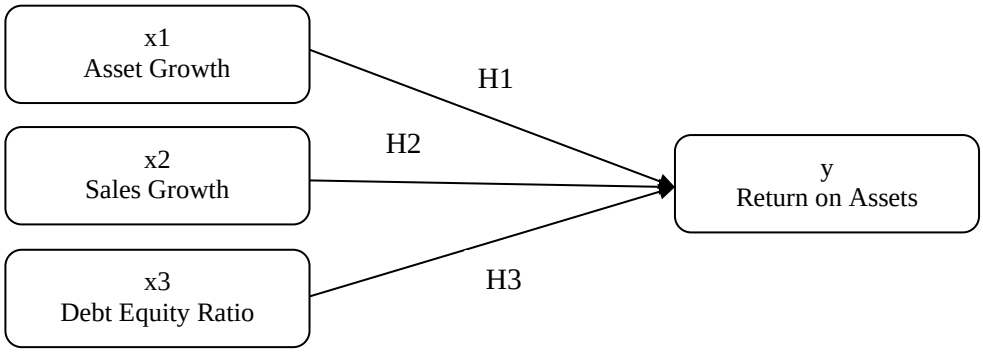


Figure 1. Conceptual Framework
Source: Author's Data Processing

H1 = There is an effect of X1 on Y
H2 = There is an effect of X2 on Y
H3 = There is an effect of X3 on Y

RESULTS AND DISCUSSION

Table 1. Descriptive Statistics Results

Variable	N	Minimum	Maximum	Mean	Std. Deviation
ROA	89	-.2510	.2828	.011311	.0974712
PA	89	-.5787	1.5300	.081298	.2888257
PP	89	-.8596	3.6979	.115047	.6289084
DER	89	-13.6441	41.4795	3.490304	6.4791307
Valid N (listwise)	89				

Source: SPSS Ver 20

Table 1 shows that the standard deviation value for this research variable exhibits a highly fluctuating pattern. This is evident from the high average standard deviation, indicating that the secondary data points in this study are dispersed over a broader range.

Table 2. Normality Test Results

		Unstandardised Residual
N		89
Normal Parameters[a,b]	Mean	.000000
	Std. Deviation	.0835144
Most Extreme Differences	Absolute	.114
	Positive	.092
	Negative	-.114
Kolmogorov-Smirnov Z		1.075
Asymp. Sig. (2-tailed)		.198
a. Test distribution is Normal.		
b. Calculated from data.		

Source: SPSS Ver 20

Table 2 shows the *Kolmogorov-Smirnov Z* value of 1.075 and the *Asymp Sig* (*2-tailed*) value of 0.198> 0.05, which means that the residual data in this study are normally distributed.

Table 3. Multicollinearity Test Results

Model		Collinearity Statistics	
		Tolerance	VIF
1	Lag PA	.729	1.372
	Lag PP	.725	1.379
	Lag DER	.994	1.006
a. Dependent Variable: Lag ROA			

Source: SPSS Ver 20

Table 3 shows that there is no multicollinearity in this test as evidenced by:

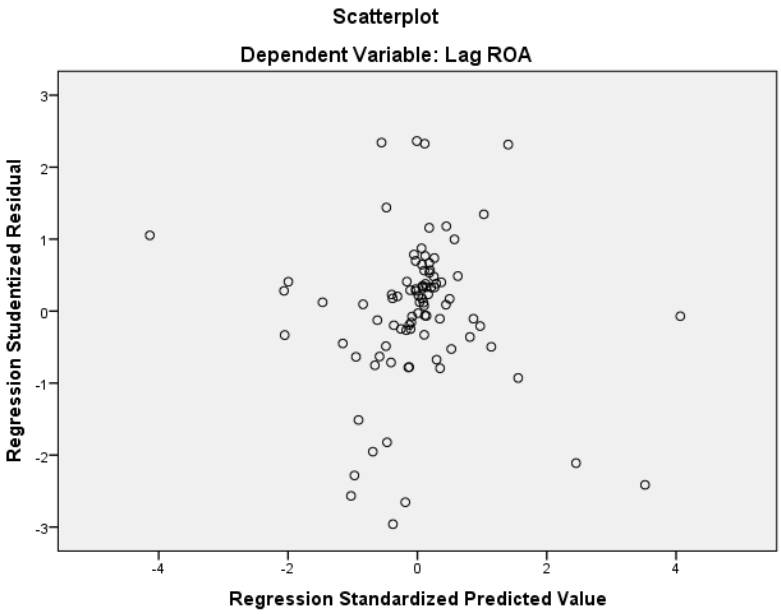
1. The *tolerance* value on the asset growth *lag* variable is 0.729 > 0.20 and the VIF value is 1.372 < 10, meaning that there are no symptoms of multicollinearity.
2. The *tolerance* value on the *Lag* sales growth variable is 0.725 > 0.20 and the VIF value is 1.379 < 10, meaning that there are no symptoms of multicollinearity.
3. The *tolerance* value on the *Lag leverage* DER variable is 0.994 > 0.20 and the VIF value is 1.006 < 10, meaning that there are no symptoms of multicollinearity.

Table 4. Autocorrelation Test Results

Model	Durbin-Watson
1	2.032[a]
a. Predictors: (Constant), Lag DER, Lag PA, Lag PP	
b. Dependent Variable: Lag ROA	

Source: SPSS Ver 20

The results of the Durbin-Watson (DW) test in Table 4 show a DW value of 2.032. Using the criteria dU < DW < 4 - dU, it was found that the DW value falls between the dL and dU values from the table (1.7254 < 2.032 < 2.2746). This indicates that there are no signs of autocorrelation in the data used in this study.



Source: SPSS Ver 20

Figure 2. Heteroskedesticity Test Results

The scatterplot image above shows that there is no problem in testing heteroscedasticity as indicated by:

1. The dots in the *scatterplot* graph are mostly spread above and below or around the number 0.
2. The dots in the *scatterplot* graph are mostly not just clustered above or below 0.
3. The dots in the *scatterplot* graph are mostly randomly sc*attered* and do not form a certain pattern such as triangles, quadrilaterals, regular curves and so on.

Table 5. Adj R Square Test Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.366[a]	.134	.103	.0849754
a. Predictors: (Constant), Lag DER, Lag PA, Lag PP				
b. Dependent Variable: Lag ROA				

Source: SPSS Ver 20

Table 5 *of the goodness of fit test* results of the *Adjusted R Square* value obtained a value of 0.103. This shows that only 10.3% (0.103) of *profitability* (ROA) can be explained by the variables of asset growth, sales growth, and *leverage* (DER), the remaining 89.7% (100% - 10.3% = 89.7%) is explained by other variables not in this study.

Table 6. ANOVA Test Results

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.095	3	.032	4.370	.007[b]
	Residuals	.614	85	.007		
	Total	.708	88			
a. Dependent Variable: Lag ROA						
b. Predictors: (Constant), Lag DER, Lag PA, Lag PP						

Source: SPSS Ver 20

Table 6 model test results using ANOVA[a] obtained a *sig F* value of 0.007 < *sig a* 0.05. In other words, there is a weak simultaneous influence between asset growth, sales growth and *leverage* (DER) on *profitability* (ROA).

Table 7. COEFFICIENTS Test Results

Model		Unstandardised Coefficients		Standardised Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.011	.010		1.091	.278
	Lag PA	.026	.035	.088	.743	.459
	Lag PP	.026	.017	.185	1.557	.123
	Lag DER	-.004	.001	-.257	-2.537	.013

a. Dependent Variable: Lag ROA

Source: SPSS Ver 20

Table 7 if implemented into a *multiple linear regression* equation model, the result is Y = 0.011 + 0.026 (0.459) + 0.026 (0.123) -0.004 (0.013) with the following explanation:

1. The acquisition of the *Lag* regression coefficient value of asset growth of b1 = 0.026 with a positive direction and the results of its significance value of *sig t* 0.459> *sig a* 0.05. These results indicate that there is no influence between asset growth on ROA *profitability*. In addition, this result is not in line with signal theory which says that the higher the total assets, the greater the operating results or profits (Mariani, 2019). These results also contradict previous findings which state that asset growth affects ROA *profitability* (Afrianti & Purwaningsih, 2022). However, this result is in line with (Alfindo Hm, 2022) which states that asset growth has no effect on ROA *profitability*. This finding indicates that the asset growth variable cannot be used as a benchmark in *profitability* (ROA) problems. Based on the author's observation, the lack of effect of asset growth on *profitability* (ROA) is caused by 2 things, namely: (1) Most of the changes in the increase/decrease in the asset growth ratio obtained by the company are still relatively small; and (2) There are several companies whose asset growth ratio has decreased or is negative but their profitability ratio is still increasing or positive, and vice versa. In other words, the company is not able to create an increase in assets in a large number of ratios and is unable to empower the increase in assets obtained effectively to increase return on assets.
2. The obtained regression coefficient value of *Lag* sales growth is b2 = 0.026 with a positive direction and the result of its significance value is *sig t* 0.123 > *sig a* 0.05. These results indicate that there is no influence between sales growth on *profitability* (ROA). In addition, this result is not in line with the signal theory which says that sales growth from year to year shows that the demand for merchandise is increasing and will increase the profit earned (Wulandari, 2021). This result also contradicts previous findings from (Widhi & Suarmanayasa, 2021; Citarayani, et al., 2020) which suggest that sales growth affects *profitability* (ROA).
   This finding indicates that the sales growth variable cannot be used as a benchmark to determine the level of *profitability* (ROA) of a company. Based on the author's observation, the non-effect of sales growth on *profitability* (ROA) is caused by 2 things, namely: (1) There are several companies whose sales growth ratio has decreased or is negative but *their profitability* ratio has increased or is positive, and vice versa; and (2) The average sales growth is also accompanied by additional assets and increased liabilities, so that the increase in *profitability* is not maximised. This means that sales growth is not able to cover the costs of other variables such as debt (*liability*), so that the profit earned from sales is not optimal.
3. The acquisition of the regression coefficient value of *Lag leverage* (DER) of b3 = -0.004 with a negative direction and the result of its significance value of *sig t* 0.013 > *sig a* 0.05. These results indicate that there is an influence between *leverage* (DER) on *profitability* (ROA) in a negative direction. These results are also in line with signal theory which says that the higher the *leverage* ratio, the greater the investor's confidence to invest their funds which will certainly increase the company's operating capital in order to achieve as much profit as possible (Dewi, et al., 2020).

Company operations require a lot of money for the smooth running of activities and the achievement of company *profits*. One of the many costs comes from the *leverage of* own capital and debt. This result is also in line with previous findings which suggest that *leverage* (DER) affects ROA *profitability* (Murthi, et al., 2021; Putri & Kusumawati, 2020). This finding indicates that the DER leverage variable can be used as a measuring tool in *profitability* problems.

CONCLUSION

Asset growth and sales growth do not have an effect on the *profitability* (ROA) of retail sub-sector companies for the period 2018-2022. However, *leverage* (DER) does influence the *profitability* (ROA) of these companies during the same period. It is recommended that companies should avoid excessive reliance on debt in their operations and aim to manage their debt effectively and efficiently in their daily activities, allowing them to shift the impact from negative to positive. Additionally, it is advised that investors assess the debt variables of a company before making transactions in the capital market to ensure that their investments yield benefits.

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