

THE EFFECT OF RETURN ON ASSETS (ROA) AND TOTAL ASSET TURNOVER (TATO) ON EARNINGS GROWTH

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Abstract

The purpose of this research is to examine the effect of Return on Asset (ROA) and Total Asset Turnover (TATO) on profit growth in telecommunication subsector companies listed on the Indonesia Sharia Stock Index (ISSI) during the year 2013-2022. The research used a quantitative approach with panel data regression analysis through a common effect model. The results showed that ROA and TATO, there is no significant effect either partially or simultaneously on profit growth. Low ROA indicates that the business is not managing its assets as efficiently as it may be in order to turn a profit. Similarly, non-optimal TATO indicates the low effectiveness of the company in managing assets to support sales activities. Simultaneously, the combination of the two does not contribute significantly to profit growth, which suggests that factors not included in this study's variables are more important.

Keyword: *Return on Asset (ROA); Total Asset Turnover (TATO); Earnings Growth; Telecommunication Subsector; ISSI*

A. INTRODUCTION

In an era of increasingly fierce business competition, the company's ability to demonstrate solid financial performance is very important. Financial reports serve as the main instrument for assessing operational efficiency and business sustainability, especially for stakeholders such as investors and creditors (Sutrisno, 2013). Quality financial reports not only reflect transparency in financial management but also become the main tool in making strategic corporate decisions. Profit is one metric that frequently raises concerns since it shows how profitable the business can make its operations (Juliana & Sulardi, 2003, in Mahaputra, 2012). In the telecommunications subsector, which is one of the strategic sectors in Indonesia, there are significant fluctuations in financial performance, including ROA, TATO, and profit growth. These fluctuations are of particular concern, especially for companies listed on the Indonesia Sharia Stock Index (ISSI), where transparency and accountability are the main pillars of their operations (Sunaryadi, 2019).

Return on assets (ROA), a profitability ratio, measures how well a company generates net income from its assets. The more effectively Profits are produced by assets the higher the ROA (Hery, 2021). This indicator is a crucial tool for assessing how well a business is performing, particularly when it comes to allocating resources to maximize profits. Conversely, TATO is an activity ratio that illustrates how effectively the business uses its resources to generate income. This ratio shows how well the business uses all of its resources to support operations (Sudana, 2019). This effectiveness is considered important in the telecommunications industry which relies heavily on large assets to support service provision. The shift in net profit from one period to the next is referred to as profit growth. This illustrates the business's capacity to consistently boost profitability (Sunaryadi, 2019). This indicator is an important measure for investors to assess the stability and future prospects of the company.

B. LITERATURE REVIEW

Profit growth is theoretically positively correlated with both ROA and TATO, with higher ROA indicating improved asset management efficiency and higher TATO indicating revenue-generating asset utilization optimization (Syahida, 2021). In other words, these two ratios should contribute significantly in supporting the company's profit growth. However, empirical data shows a mismatch between theory and practice. Some telecommunication subsector companies listed in ISSI recorded an increase in ROA, but profit growth actually decreased in the same period, as happened in 2015 and 2016. This

phenomenon suggests that there are other factors, both internal and external, that may be more dominant in influencing profits in this sector.

Previous research provides mixed results regarding the effect of ROA and TATO on earnings growth. Syahida (2021) discovered that TATO significantly boosts earnings growth. However, Yusuf's (2021) research concluded that TATO did not have a significant effect. Meanwhile, ROA is generally recognized as an important indicator in measuring profitability, although its effectiveness depends on the industry context, company strategy, and macroeconomic conditions during the research period. With these mixed results, a more in-depth analysis is needed to clarify the relationship between ROA, TATO, and earnings growth, especially in the context of the telecommunications subsector.

This research is focused on the telecommunications subsector listed in ISSI. Telecommunication companies were chosen as the object of research because this sector plays an important role in sustaining economic development in the digital era. Telecommunications provides connectivity and communication infrastructure that not only supports the needs of society but also supports business and government activities. In recent years, the telecommunications subsector has experienced rapid growth due to the high demand for digital services, especially during the COVID-19 pandemic which encourages people to do more activities online. In addition, companies in this subsector face major challenges in managing assets and operations to maintain profitability amid intensifying competition.

The selection of telecommunications companies listed on ISSI is also based on sharia aspects which are the main reference in preparing financial statements. ISSI provides standards that ensure that company operations meet sharia principles, such as the prohibition of usury, speculation, and investment in non-halal activities. This makes the financial statements of companies in ISSI have distinctive characteristics, which are relevant to be the object of research related to the relationship between asset efficiency and profit growth.

The primary goal of this study is to determine how much ROA and TATO impact profit growth in telecommunications subsector businesses that are listed on ISSI. Specific goals of the study include determining the effect of ROA on profits growth, analyzing the combined effect of the two components, and evaluating the effect of TATO on earnings growth. With this emphasis, the study should give fresh perspectives on the primary factors influencing earnings growth as well as tactical suggestions for businesses looking to boost productivity and profitability. Additionally, it is anticipated that the study's findings would be used as a guide by academics, managers, and investors to comprehend the significance of company operations and asset management in bolstering earnings growth.

C. METHOD

1. Research Method

This study employs a descriptive method combined with a quantitative approach. The descriptive method is utilized to systematically outline the facts and characteristics of the variables under investigation, which include ROA, TATO, and profit growth in telecommunication subsector companies listed on the Indonesian Sharia Stock Index (ISSI). Meanwhile, the quantitative approach is applied to examine the relationships between variables using numerical data sourced from the companies' annual financial reports.

The secondary data used in this study was extracted from the 2013–2022 financial statements of telecommunications subsector businesses that were listed on ISSI. Using the purposive sampling technique, five of the 17 companies in the population were chosen as research samples. A number of factors, including the availability of financial statement data during the study period and the company's track record of adhering to sharia rules, are taken into consideration when choosing the sample.

2. Data Analysis & Technique

The data analysis in this study utilized panel data regression with the Common Effect Model (CEM) approach, combining cross-sectional data across companies and time-series data. A t-test was employed to evaluate the partial influence of ROA and TATO on earnings growth, while an F-test assessed their simultaneous effect. Additionally, the coefficient of determination (R^2) was calculated to quantify the contribution of ROA and TATO to earnings growth. All analyses were performed using EViews 12 software to ensure precision and reliability of the results.

3. Hypothesis

H1: Return on Assets (ROA) has a significant effect on profit growth

Return on assets is one financial statistic that influences profit growth, the higher the return on assets, the more net profit is made for every rupiah of money invested in total assets. Additionally, each rupiah of funds embedded in total assets will yield less net profit if the rate of return on assets declines.

We can deduce that ROA and profit growth are positively correlated. A company's increased profitability will be impacted by the rise in return on assets.

H2: Total Asset Turnover (TATO) has a significant effect on profit growth.

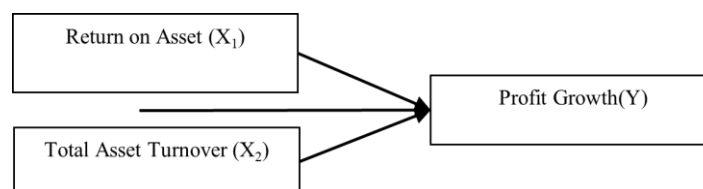
Total Asset Turnover(TATO) shows how well a corporation manages its assets to generate revenue. The more effectively a business uses all of its resources, the greater the TATO ratio. This indicates that if the total assets spin rapidly and produce high sales, the company's profit will rise; conversely, if the ratio is low, the profit value would fall. Therefore, the faster the asset turnover and the larger the company's profit, the higher the ratio of total asset turnover. So the relationship between Total Asset Turnover (TATO) and profit growth is positive. If Total Asset Turnover (TATO) increases, it will affect the increase in profits in a company.

H3: Return on Asset and Total Asset Turnover have a significant effect on profit growth

When combined, ROA and TATO show how well the business uses its resources to sustain profitability. While TATO demonstrates how well assets support sales, ROA demonstrates the capacity to produce net income. The combination of the two is expected to optimally drive profit growth, especially in the telecommunications subsector which relies on large asset investments for its operations.

4. Thinking Framework

The quantitative approach research is based on the framework below:



Picture. 1. Quantitative Approach Framework

D. RESULT AND DISCUSSION

1. RESULT

The Common Effect Model (CEM), which is displayed in the table below, was chosen based on the results of the most recent test.

Table 1. Result Panel Data Regression Common Effect Model (CEM)

Dependent Variable: Y				
Method: Panel Least Squares				
Date: 04/27/24 Time: 15:11				
Sample: 2013 2022				
Periods included: 10				
Cross-sections included: 5				
Total panel (balanced) observations: 50				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-10.78272	105.6442	-0.102066	0.9191
X1	-5.075322	7.138525	-0.710976	0.4806
X2	-524.7356	345.3824	-1.519289	0.1354
R-squared	0.056220	Mean dependent var	-151.8508	
Adjusted R-squared	0.016059	S.D. dependent var	361.5088	
S.E. of regression	358.5943	Akaike info criterion	14.66038	
Sum squared resid	6043723.	Schwarz criterion	14.77511	
Log likelihood	-363.5096	Hannan-Quinn criter.	14.70407	
F-statistic	1.399875	Durbin-Watson stat	2.048768	
Prob(F-statistic)	0.256721			

Source: Output EViews 12, 2024.

Based on the results of Eviews 12 output, the regression model equation between the ROA and TATO variables is obtained, namely:

$$\text{Profit Growth} = (-10.7827150778) - 5.07532248266 \text{ ROA} - 524.735624261 \text{ TATO}$$

Based on the panel data regression equation above, it is found:

- The constant value (α) is -10.7827, meaning that if all independent variables are assumed to be zero (0), earnings growth (Y) would be -10.7827.
- The regression coefficient for ROA (X1) is -5.0753, suggesting that a 1-unit increase in ROA will decrease earnings growth by 5.0753, assuming other independent variables remain constant.
- The regression coefficient for TATO (X2) is -524.7356, indicating that a 1-unit increase in TATO will decrease earnings growth by 524.7356, with other independent variables held constant.

This study applies the Common Effect Model (CEM) based on the results of the model selection process, with the t-test significance outputs presented below.

Table 2. Result t-Test

Dependent Variable: Y Method: Panel Least Squares Date: 04/27/24 Time: 21:46 Sample: 2013 2022 Periods included: 10 Cross-sections included: 5 Total panel (balanced) observations: 50				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-10.78272	105.6442	-0.102066	0.9191
X1	-5.075322	7.138525	-0.710976	0.4806
X2	-524.7356	345.3824	-1.519289	0.1354

Source: Processed Data, 2024.

The partial hypothesis test's findings, testing the independent variables with a significance level of 5% (0.05) using a two-way test, namely $df = n - k$, then the t table value is $df = 50 - 3 = 47$ with a value of 2.011741. The t test results table above serves as the basis for the comparison between the t table and tcount.

- Based on the panel data testing results for the Return on Asset (X1) variable, the t-value obtained is -0.710976, while the critical t-value (ttable) at a 5% significance level ($\alpha = 0.05$) with degrees of freedom ($df = n - k = 47$) is 2.011741. Using a two-tailed test, it is evident that $tcount < ttable$, specifically $-0.710976 < 2.011741$. Additionally, the probability value for Return on Asset is 0.4806, which exceeds the significance level ($0.4806 > 0.05$). Therefore, the null hypothesis (H_0) is accepted, and the alternative hypothesis (H_a) is rejected, indicating that the Return on Asset variable does not have a significant partial effect on profit growth.
- For the Total Asset Turnover (X2) variable, the panel data testing results show a t-value of -1.519289, while the critical t-value (ttable) at a 5% significance level ($\alpha = 0.05$) with degrees of freedom ($df = n - k = 47$) remains 2.011741. The two-tailed test reveals that $tcount < ttable$, specifically $-1.519289 < 2.011741$. Furthermore, the probability value for Total Asset Turnover is 0.1354, which is greater than the significance level ($0.1354 > 0.05$). Consequently, the null hypothesis (H_0) is accepted, and the alternative hypothesis (H_a) is rejected, showing that Total Asset Turnover also does not significantly affect profit growth on a partial basis.

Below are the results of simultaneous hypothesis testing using the f test:

Table 3. Hasil Uji F

R-squared	0.056220	Mean dependent var	-151.8508
Adjusted R-squared	0.016059	S.D. dependent var	361.5088
S.E. of regression	358.5943	Akaike info criterion	14.66038
Sum squared resid	6043723.	Schwarz criterion	14.77511
Log likelihood	-363.5096	Hannan-Quinn criter.	14.70407
F-statistic	1.399875	Durbin-Watson stat	2.048768
Prob(F-statistic)	0.256721		

Source: Processed Data, 2024.

F_table is produced at 3, 195056, with the level $\alpha = 0.05$, $df_1 = k - 1$ or $df_1 = 3 - 1 = 2$, and $df_2 = n - k$ or $df_2 = 50 - 3 = 47$. While the Prob (F-statistic) value is 0.256721, indicating that the value is greater than $\alpha = 0.05$, it is evident that $F_{count} < F_{table}$ ($1.399875 < 3, 195056$). Thus, it can be concluded that H_a is rejected and H_0 is accepted. Therefore, there is no discernible impact of both return on assets and total asset turnover on profit growth at the same time.

The following table is the result of testing the coefficient of determination:

Table 4. Test Results of the Coefficient of Determination

R-squared	0.056220	Mean dependent var	-151.8508
Adjusted R-squared	0.016059	S.D. dependent var	361.5088
S.E. of regression	358.5943	Akaike info criterion	14.66038
Sum squared resid	6043723.	Schwarz criterion	14.77511
Log likelihood	-363.5096	Hannan-Quinn criter.	14.70407
F-statistic	1.399875	Durbin-Watson stat	2.048768
Prob(F-statistic)	0.256721		

Source: Output EViews 12, 2024.

It can be seen from the Eviews output above, that the amount of R-Squared is 0.056220 or 5.6% which is the determining coefficient or determination which shows that the influence of the independent variables ROA (X1) and TATO (X2) on profit growth (Y). The output shows that 5.6% of changes in profit

growth can be explained by ROA and TATO. Meanwhile, the remaining 94.4% are additional factors not covered in this research. So the conclusion is that in this study the relationship between variables has an influence level of 5.6%.

2. DISCUSSION

The purpose of this study is to investigate how ROA and TATO, both separately and jointly, affect profit growth in telecommunications subsector businesses. According to the partial test results, ROA has a probability of 0.4806 (above the significance level of $\alpha = 0.05$) and a t-value of 0.710976, which is less than the critical t-value of 2.011741. These results suggest that profit growth is not significantly impacted by ROA. One contributing factor is the inefficient utilization of company assets, resulting in large asset bases that fail to drive profit increases. The negative regression coefficient for ROA (-5.0753) further suggests that a 1-unit increase in ROA leads to a 5.0753 decrease in profit growth. These findings are consistent with earlier research by Syahida (2023) and Handayani (2021), which likewise concluded that ROA had no discernible effect on profit growth.

Likewise, the TATO variable's partial test results indicate a probability of 0.1354 (higher than $\alpha = 0.05$) and a tcount = 1.519289, which is less than the ttable = 2.011741. This indicates that TATO has no discernible impact on profit growth, at least in part. The primary reason is the low asset turnover rate, which indicates that there are too many assets relative to sales and that they have not been used to their full potential to boost profits. A 1 unit increase in TATO will result in a 524.7356 decrease in profit growth, according to the TATO regression coefficient of -524.7356. This finding supports the research of Yusuf (2021) and Syahida (2023), which also concluded that TATO does not affect profit growth.

Simultaneously, TATO and ROA have no discernible impact on earnings growth. This is evident from the likelihood of 0.256721 (higher than $\alpha = 0.05$) and the Fcount value = 1.399875, which is less than the Ftable = 3.195056. According to the coefficient of determination (R^2), ROA and TATO account for only 5.6% of the variation in earnings growth, with the remaining 94.4% coming from other factors not covered in this analysis.

Overall, this study demonstrates that neither ROA nor TATO, either separately or in combination, significantly affects the increase of profits in businesses in the telecommunications subsector. These results contradict the notion that ROA and TATO are essential for increasing profitability, but they are also in line with several previous studies, such as those by Handayani (2021), Yusuf (2021), and Syahida (2023).

E. CONSLUSION

The results showed that Return on Asset (ROA) and Total Asset Turnover (TATO), both partially and simultaneously, had no significant effect on profit growth in telecommunication subsector companies listed in ISSI. Partially, ROA has a tcount of -0.710976 and a probability of 0.4806 (> 0.05), while TATO has a tcount of -1.519289 with a probability of 0.1354 (> 0.05). Simultaneously, the Fcount value of 1.399875 is smaller than Ftable (3.195056) with a probability of 0.256721 (> 0.05). The coefficient of determination shows that only 5.6% of earnings growth can be explained by ROA and TATO, while 94.4% is influenced by other factors. These findings are in line with earlier research, including Syahida (2023), which found no significant relationship between ROA and TATO and earnings growth.

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