E-ISSN 2985-7910

Proceeding Medan International Conference Economics and Business

Volume 1, Year 2023
"Entrepreneurship on Global Economics Development in the Era of Society 5.0"

Factors Affecting Profit Growth

Umi Kalsum[1*]

[1]Universitas Muhammadiyah Sumatera Utara
Jl. Kapten Muchtar Basri No.3 Medan, Indonesia
***Email:** umikalsum@umsu.ac.id

ABSTRACT

This study aims to determine the effect of Net Interest Margin on profit growth, to determine the effect of the Loan To Deposit Ratio on profit growth and to determine the effect of Return On Assets on Profit Growth in the Banking Sector Listed on the Indonesia Stock Exchange in 2015 – 2020. The variables used are are Net Interest Margin, Loan To Deposit Ratio and Return On Assets. The approach used in this study is a quantitative approach with classical assumptions and regression analysis. The population in this study were 20 banking companies while the research sample was 8 banking companies listed on the Indonesia Stock Exchange. The data collection technique in this study is secondary data. Data analysis techniques use a quantitative approach.

Keywords: Net Interest Margin, Loan to Deposit Ratio and Return on Assets

INTRODUCTION

Along with the pace of the world economic order which has experienced development and leads to a free market economic system, companies are increasingly compelled to increase competitiveness. A company can be said to achieve success and win the competition if it can generate maximum profits. Profits reflect withdrawals to equity holders for the period in question. Profit is an increase in economic benefits during a period in the form of income or additions to assets or decreases in equity liabilities that do not come from investment contributions.

Profit growth cannot be separated from the company's financial performance. One of the most frequently used financial analysis tools is financial ratios. Financial ratios are comparisons of figures from estimates contained in the balance sheet and income statement.

According to Kasmir (2012) defining financial ratios is an activity of comparing the numbers in the financial statements. Comparisons can be made between one component and components in one financial report or between components that exist between financial statements. Then, the numbers being compared can be numbers in one period or several periods.

It is important for users of financial statements to know the financial statements to determine profit growth because the increase in profits earned by the company determines the rate of return to shareholders or for potential investors to make decisions in investing in the company. For company management, profit growth is used as a tool to deal with various possibilities that will occur in the future. Creditors, before making a decision to give or refuse a company's credit request, need profit growth information that aims to measure the company's ability to pay back its debts plus interest expenses.

THEORETICAL BASIS

Profit Growth

The main objective of a company is to generate profit. Profit (income is also called earning or profit) is a summary of business operating activities in a certain period expressed in financial terms. Companies can experience an increase or decrease in profits from the previous year to the following year, this is called a change in profit. Darsono and Purwanti (2008, p.121) state "Profit is the achievement of all employees in a company expressed in the form of financial figures, namely the positive difference between income minus expenses".

According to Rialdy (2017, p.85) Profit growth is a change in financial reports per year. Profit growth is related to how the stability of the increase in retained earnings going forward. Profit growth that is above the average for a company is generally based on the fast growth expected of the industry in which the company operates.

Profit Is the basis of a performance measure for management's ability to operate company assets. Profits must be well planned so that management can achieve them effectively. Profit growth is a ratio that shows the company's ability to increase net income compared to the previous year. Harahap (2015, p. 310). Profit growth is a ratio that shows the company's ability to increase net income compared to the previous year.

According to Warsidi and Pramuka (2000, p.45) "Profit growth is calculated by subtracting the current period's profit from the previous period's profit and then dividing it by the previous period's profit." By predicting profits, the company's prospects can be identified and able to predict dividends to be received in the future. Profit can provide a positive signal regarding the company's future prospects regarding company performance. With profit growth that continues to increase from year to year, it will provide a positive signal regarding the company's performance (Windy, 2012 p.2). Profit measurement is important for business and economic decisions that will determine the location of resources, which in turn will contribute to people's living standards (James D. Dtice, Phd, 2009).

Profit growth is influenced by factors originating from within the company, but besides that profit growth can also be influenced by external factors such as price increases due to inflation, the rupiah exchange rate, economic conditions, political conditions or the state and managerial freedom that allows managers choose accounting methods and make estimates that can increase profits.

According to Marcus (2007) the factors that influence profit growth are:

1. Rise and fall in the number of units and the selling price per unit
2. Rise and fall of cost of goods sold
3. Rising and falling business costs are influenced by the number of units sold
4. Rise and fall in loan interest rates
5. The rise and fall of taxes is influenced by the size of the profits earned or the high and low tax rates.

However, according to Gunawan (2013, p.65) the profit growth factor can also be influenced by external factors such as an increase in prices due to inflation and the existence of managerial discretion which allows managers to choose accounting methods and make estimates that can increase profits.

Net Interest Margin (NIM)

Financial Ratios are the most frequently used financial analysis tool. Financial ratios link the various estimates contained in the financial statements so that the financial condition and operating results of a company can be interpreted.

According to Simamora (2001, p.822) "The ratio is a useful guide in evaluating the company's financial position and operations and making comparisons with the results of previous years or other companies.

Net Interest Margins(NIM) is important to evaluate a bank's ability to manage interest rate risk. When interest rates change, bank interest income and interest charges will change. For example, when interest rates increase, both interest income and interest costs will increase because some bank assets and liabilities will be valued at a higher rate (Koch and Scott, 2000).

Net Interest Margins(NIM) is a ratio that shows the ability of bank management to manage its earning assets to generate net interest income. Net interest income is obtained from interest income minus interest expenses. The greater this ratio, the higher the interest income on its productive assets managed by the bank, so that the possibility of the bank being in trouble is getting smaller (Amelia and Herdiningtyas, 2005).

Net Interest Margins(NIM) is calculated using the formula:

$$Net\ Interest\ Margin = \frac{\text{Pendapatan Bunga}}{\text{Aktiva Produktif}} \times 100\%$$

Net interest income is obtained by the difference between interest income and interest expense. Earning assets are bank fund placements both in rupiah and in foreign currency in the form of credit, securities, placement of funds between participating banks, including commitments and contingencies in administrative account transactions. The indicators for determining the level of operational efficiency of a bank according to Bank Info (2002:22) include Net Interest Margin (NIM) which is the comparison between net interest income and average productive assets and the ratio of operating costs to operating income used for bank business activities with operational income derived from bank business activities.

Research on net interest margin is one of the most researched themes in the banking industry. According to Emanuelle (2003) Factors that affect Net Interest Margin are:

1. Competition structure of banking products. In essence, the level of competition is reflected in the alpha and beta coefficients for the deposit and loan markets. The more competitive the two markets are, conceptually the smaller the NIM will be and vice versa. This occurs because in a competitive market, there is no opportunity for business actors (banks) to set excessive margins or abuse market power.
2. Average operating costs. In theory, banks should maintain positive margins to cover their operating costs. The higher the operational costs, the higher the NIM level that must be set by the bank.
3. Avoid the risk. Banking is assumed to have an attitude of avoiding risk. In the condition of avoiding risk, the higher the risk faced by the bank, the greater the compensation margin for this risk, and vice versa. Thus, the influence of bank risk perceptions has a positive impact on margin levels.
4. The volatility of money market interest rates. In principle, the higher the level of volatility in money market interest rates, the higher the level of risk and premium that must be faced by banks. Thus, the greater the level of net interest margin that must be set by banks, and vice versa
5. Credit risk level. Almost the same as the principle of the influence of money market interest rate volatility, the higher the level of credit risk faced by banks, the higher the level of risk premium that must be carried so that the net interest margin will be greater, and vice versa. In the model there is also a covariance coefficient between the volatility of money market interest rates and credit risk, where the greater the covariance, the positive impact it will have on the level of net interest margin.
6. The volume or value of Credits and Deposits. In essence, the greater the amount of loans granted and deposits collected by the bank, the greater the level of potential loss faced by the bank, so that it needs to be compensated with a large level of net interest margin. However, from the perspective of economies of scale, the greater the credit distribution, the efficiency benefits that arise related to the cost per unit for managing and distributing the credit portfolio should arise (Fungacova, 2006). Thus, the effect of lending on the net interest margin can be either positive or negative.

Meanwhile, according to Hamadi and Awdeh (2012) estimates and analyzes the factors that affect the NIM ratio in the banking system by making a distinction between foreign banks and local banks. An important finding from his research results is the difference in the impact of bank size, liquidity, capitalization, and credit risk on the NIM ratio. For local banks, the effect is negative, but not significant for foreign banks. In contrast, the conditions of macroeconomic variables and the structure of the banking industry have a weaker effect on the NIM ratio of foreign banks compared to the ratio of local banks' NIM. business.

Loan to Deposit Ratio(LDR)

Loan to Deposit Ratio(LDR) is a comparison between loans with third party funds (GIro, Savings, Deposits, and other short-term obligations). Lisa Narulia & Suryadi (2009: 2) states that LDR can be interpreted as a comparison between the total financing provided with the funds raised by the bank which consists of DPK plus equity. This LDR is a measure of bank liquidity with a rather long term. LDR levels that are too high indicate worsening bank liquidity, because placements on credit are also financed by third party funds which can be withdrawn from time to time.

According to Manurung and Rahaedja (2004 p.212) the Loan to Deposit Ratio formula is

$$\textit{Loan to Deposit Ratio} = \frac{\text{Kredit yang diberikan}}{\text{Dana Pihak Ketiga}} \times 100\%$$

Liquidity requirements for each bank vary depending on the specificity of the bank's business, the size of the bank and so on. Therefore, to assess the adequacy of a bank's liquidity, the Loan to Deposit Ratio is used, namely by taking into account various aspects related to its obligations, such as fulfilling loan commitments, anticipating the provision of bank guarantees which in turn will become a liability for the bank.

Loan to Deposit Ratio(LDR) does not escape from a factor that affects the level of change in the resulting ratio. According to Marsuki (2005, p.61), the factors that influence the level of a bank's LDR are.

1. The decline in production credit distribution.
2. The amount of credit channeled to the consumer sector. From the banking side, it is clear that this kind of credit policy is indeed safer and especially promises more benefits.
3. Bank Indonesia's strict regulations provide leeway in extending credit to the agricultural and marine sectors.
4. More than 50% of the assets owned by national banks are still loans from recap bonds.

Return On Assets (ROA)

Return On Assets(ROA) is a ratio that shows the yield (return) on the total assets used in the company. Return On Assets (ROA) is a measure of management's effectiveness in managing its investments. In addition, the return on investment shows the productivity of all company funds, both loan capital and joint capital. The lower (smaller) this ratio the less good, and vice versa. This means that this ratio is used to measure the effectiveness of the company's overall operations.

Return On Assets(ROA), which is often referred to as return on investment, is a measurement of the company's overall ability to generate profits with the total assets available in the company (Kasmir 2012, p.197).

Return On AssetI(ROA) is a ratio that shows how much net profit can be obtained from all the assets owned by the company. Because it used the figure of profit after tax and the average wealth of the company. Thus this ratio relates the profits derived from the company's operations to the amount of investment or assets used to generate operating profits.

According to Kasmir (2015 p. 202) the Return on Assets formula is:

$$Return\ On\ Assets = \frac{\text{Penghasilan Setelah Bunga Pajak}}{\text{Total Aktiva}} \times 100\%$$

According to Kasmir (2010 p.203), explains that what affects Return On Assets (ROA) is the return on investment or what is referred to as Return On Assets (ROA) is influenced by net profit margins and total asset turnover because if ROA is low it is caused by low net profit margin caused by low total asset turnover.

According to Munawir (2007, p.89), the amount of Return On Assets (ROA) is influenced by two factors, namely:

1. Turnover of operating assets (the rate of turnover of assets used for operating profit).
2. Profit Margin, namely the amount of operating profit expressed in percentage and the amount of net sales. This Profit Margin measures the level of profit that can be achieved by the company in relation to its sales.

METHOD

The approach in this study uses an associative approach, according to Sugiyono (2008, p.5). Associative research is research that aims to determine the relationship between two or more variables. In this study, researchers wanted to know the effect of Net Interest Margin, Loan to Deposit Ratio and Return on Assets on Profit Growth. The type of data used is quantitative, namely in the form of numbers using formal, standard and measuring instruments.

The population in this study were 20 banking companies and the samples in this study were 8 banking companies listed on the Indonesian stock exchange for the period 2015 – 2020.

The method of data analysis used in this research is quantitative data analysis. Analysis by testing and analyzing data by calculating numbers and then drawing a conclusion and testing the data.

RESULT AND DISCUSSION

1. Classic assumption test

a. Normality

According to Gujarati et al in Juliandi et al (2014) The data normality test was carried out to see whether in the regression model, the dependent and independent variables have a normal distribution or not. If the data spreads around the diagonal line and follows the direction of the diagonal line, the regression model assumes normality.

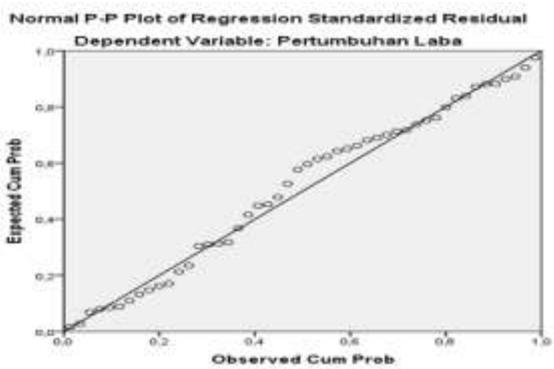


Figure 1. Normality

In the picture above it is known that the results of the data normality test show the distribution of data points approaching the diagonal line, so it can be concluded that the regression model is normally distributed and deserves to be examined.

b. Multicollinearity

According to Gujarati et al in Juliandi et al (2014) Multicollinearity is used to test whether the regression model found a strong correlation between independent variables, the method used to assess it is by looking at the value of the variance inflation factor (VIF), which does not exceed 4 or 5.

Table 1. Multicollinearity

Coefficientsa

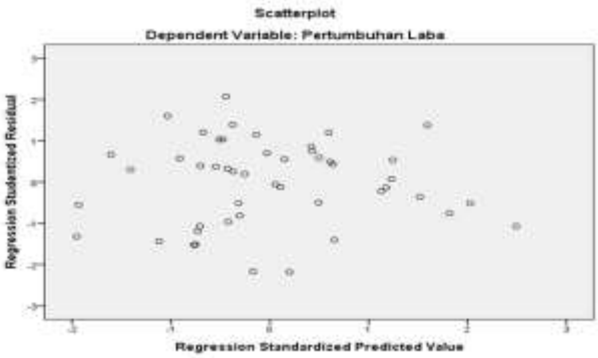
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	std. Error	Betas			tolerance	VIF
1	(Constant)	-,216	33,986		-.006	,995		
	NIM	7,030	2,316	,401	3,036	,004	,858	1.165
	LDR	-.756	,456	-,217	-1,660	,104	,875	1.143
	ROA	,432	,141	,382	3,076	,004	,974	1.027

a. Dependent Variable: Profit Growth

Based on the multicollinearity test table above the VIF and tolerance values show that all variables used in this study VIF values <10 and tolerance values > 0.1 which means that the regression model is safe from multicollinearity problems.

c. Heteroscedasticity

According to Gujarati et al in Juliandi et al (2014). Heteroscedasticity is used to test whether in the regression model, there is an unequal variance of the residuals from another observation. If the residual variance from one observation to another observation remains, then it is called homoscedasticity, and if the variance is different it is called heteroscedasticity. A good model is that heteroscedasticity does not occur. The basis for making a decision is that if certain patterns, such as the existing points (points) form a certain order, then heteroscedasticity occurs. If there is no clear pattern of spreading below and above the number 0 on the Y axis, then heteroscedasticity does not occur.



From the Scatterplot graph it can be seen that if there is no clear pattern, and the points spread above and that the number 0 is on the Y axis, then identifying that there is no heteroscedasticity in the regression model so that the regression model is feasible to use to see profit growth in banking sub-sector companies listed on IDX 2015 – 2020 based on Net Interest Margin, Loan Loan to Deposit Ratio and Return On Assets. The results of this test indicate that the regression model is free from heteroscedasticity problems.

Table 2. Heteroscedasticity
Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	std. Error	Betas		
1	(Constant)	-,216	33,986		-.006	,995
	NIM	7,030	2,316	,401	3,036	,004
	LDR	-.756	,456	-,217	-1,660	,104
	ROA	,432	,141	,382	3,076	,004

a. Dependent Variable: Profit Growth

From the table above it can be concluded that:

1. On the Net Interest Margin t_{count} of 3.036 while t_{table} 2.015 (3.036 > 2.015) which shows that the net interest margin has a significant effect because the t $value_{count}$ > t_{table}. This is reinforced by a significant value of 0.004 <0.05 which indicates that the net interest margin has a partially positive and significant effect on profit growth.
2. The Loan to deposit ratio has a t $value_{count}$ of -1.660 while t_{table} 2.015 (-1.660 < 2.015) which indicates that the loan to deposit ratio is not significant because the value of t count < t table. This is reinforced by a significant value of 0.104 > 0.05 which indicates that the loan to deposit ratio has no partial effect on profit growth.
3. On Return on Assets have t_{count} of 3.076 while t_{table} 2.015 (3.076 > 32.015) which shows that the return on assets has a significant effect because the t $value_{count}$ > $t_{table.}$ This is reinforced by a significant value of 0.004 <0.05 which indicates that the return on assets has a partially positive and significant effect on profit growth.

Discussion

1. Effect of Net Interest Margin on Profit growth

The research results obtained regarding the effect of Net Interest Margin on Profit Growth in banking companies listed on the Indonesia Stock Exchange. Partial hypothesis test results show that t_{count} of 3.036 while t_{table} 2.015 (3.036 > 2.015) which shows that the net interest margin has a significant effect because the t $value_{count}$ > t_{table}. This is reinforced by a significant value of 0.004 <0.05 which indicates that the net interest margin has a partially positive and significant effect on profit growth. The ratio of Net Interest Margin which is getting bigger shows an indication of increasing interest income on productive assets managed by the bank (Ika, 2011)

Net Interest Margins provides an overview of the percentage of net interest income divided by total assets. The greater this ratio, the higher the interest income on earning assets managed by the bank, so that the possibility of a bank in a troubled condition is getting smaller. Increased interest income can contribute to profits for the bank. So it can be concluded that the greater the profit growth of a bank's Net Interest Margin, the greater the ability to earn the bank's profit, which means that the financial performance is increasing.

According to Pandia (2012 p.72) states that "The greater this ratio, the greater the interest income on productive assets managed by the bank so that it is possible for a bank to be in a troubled condition to be smaller." In previous research conducted by Aini (2013), Savitri (2012), Mahendra and Rahardjo (2011), NIM has a significant positive effect on profit growth

2. The Effect of Loan to Deposit Ratio on Profit Growth

The research results obtained regarding the effect of Loan to deposit Ratio on Profit Growth in banking companies listed on the Indonesia Stock Exchange. The results of the partial hypothesis test show that the value of $t_{count}$of -1.660 while t_{table}2.015 (-1.660 < 2.015) which indicates that the loan to deposit ratio is not significant because the value of t count < t table. This is reinforced by a significant value of 0.104 > 0.05 which indicates that the loan to deposit ratio has no partial effect on profit growth. The higher the LDR, the more likely the bank is to cover customer deposits (depositors) with the amount of credit provided, so that the bank's condition is getting better, therefore the possibility for the bank to generate profits is also getting better and in the end it can increase its net profit ratio. However, the higher the LDR ratio, the greater the risk, so that at some point the bank will experience a loss. A high LDR means the company has a high risk.

According to Kasmir (2014, p.225), LDR (Loan to Deposit Ratio) is the ratio used to measure the composition of the amount of credit given compared to the amount of customer funds and own capital used. In previous research, it is contrary to research conducted in previous research by Tumewu (2014) and Yuliantiningrum (2016) Loan to Deposit has a significant positive effect on profit growth.

3. Effect of Return on Assets on Profit Growth

The research results obtained regarding the effect of return on assets on profit growth in banking companies listed on the Indonesia Stock Exchange. The partial results of hypothesis testing show that it has $t_{count}$of 3.076 while t_{table}2.015 (3.076 > 32.015) which shows that the return on assets has a significant effect because the t value$_{count}$> t_{table}.This is reinforced by a significant value of 0.004 <0.05 which indicates that the return on assets has a partially positive and significant effect on profit growth. According to Munawir (2013, p.89) Return on Assets serves to measure the company's effectiveness in generating profits by utilizing its assets. The greater the return on assets, the greater the level of profit achieved and the better the company's position in terms of asset use. The higher the return on assets, the higher the profit growth. In previous research by Fathoni (2012) and Suryani (2017) the results showed that return on assets had a significant positive effect on profit growth.

CONCLUSION

Based on the results of research and discussion regarding the effect of Net Interest Margin, Loan to Deposit ratio and Return On Assets on Profit Growth in Banking sector companies listed on the IDX in 2015 – 2020, Based on research conducted on 8 banking companies listed on the IDX in 2015 – 2020, it can be concluded that the Net Interest Margin partially has a significant positive effect on profit growth. Based on research conducted on 8 banking companies listed on the IDX in 2015 – 2020, it can be concluded that the Loan to Deposit Ratio partially has no significant effect on profit growth. Based on research conducted on 8 banking companies listed on the IDX in 2015 – 2020, it can be concluded that Return on Assets partially has a significant positive effect on profit growth

REFERENCES

Agustina & Rice. (2016). Analysis of the Factors Influencing Profit Growth With Company Size As a Moderating Variable in Manufacturing Companies Listed on the Indonesia Stock Exchange (IDX). Journal of Accounting Management, 6(1), 85-100.

Alamsyah, Sustari. (2015) Effect of Capital Adequacy Rati (CAR), Non Performing Loans (NPL), Loan to Deposit Ratio (LDR), Return on Assets (ROA) and Net Interest Margin (NIM) on Profit Growth. Indonesian Banking Company 2011-2015 period. Journal of Economics and Business. 32-54.

Almadany, Khairunnisa. (2012) The Effect of Loan to Deposit Ratio, Operating Costs Operating Income and Net Interest Margin on the Profitability of Banking Companies Registered on the IDX. Journal of Accounting and Business Research. 12(2), 165-183.

Andriyani, Ima. (2015) The Effect of Financial Ratios on Profit Growth in Mining Companies Listed on the Indonesian Stock Exchange. Journal of Management and Business, 13(3), 1-16.

Aprilia, Ulvah Nathasya. & Rahadian. (2017) The Effect of Banking Soundness Level on Profit Growth at Foreign Exchange National Private Commercial Banks in Indonesia for the 2012-2015 Period. Journal of Economics and Business, 4(3),1-7.

Gunwan, Ade. Wahyuni, Sri Fitri. (2013) Effect of Financial Ratios on Profit Growth in Indonesian Trading Companies. Journal of Management and Business, 13(1), 63-84.

Hani, Syafrida. (2015) Financial Statement Analysis Techniques. Medan: UMSU Press.

Harun, Usman. (2016) Effect of CAR Ratios, LDR, NIM, BOPO, NPL on ROA. Research Journal of Business and Management, 4(1), 67-81.

Mahaputra, I Nyoman Kusuma Adnyana. (2012) The Effect of Financial Ratios on Profit Growth in Manufacturing Companies Listed on the IDX. Journal of Economics and Business. 7(2), 243-253.

Pangaribuan, Hasudungan. (2017) Analysis of the Effect of Financial Ratios on Study Profit Growth in Non-Bank Companies Joining the LQ45 Group Listed on the IDX for the 2010-2014 Period. Management and Business Journal. 1(4), 1-16.

Puspitasari, Intan. (2015) Effect of Total Assets Turnover and Return on Assets on Profit Growth listed on the IDX for the 2011-2015 period. Journal of Economics and Business, 8(1), 1-15.

Rialdy, Novien. (2016) Effect of Operating Cash Flow on Company Profit Growth at PT. Pawnshop (Persero) Kanwil I Medan. Journal of Finance and Business, 3(1), 84-92.

Syriac, Yani. (2017) Analysis of the Effect of Risk Based Bank Rating Ratios on Profit Growth in Banking Companies Registered on the IDX. Journal of Management and Business, 1(1), 1-23.

Silaban, Lady Irene. Rahadian, Dadan. and Gustyana, Tieka Trikartika. (2018) The Effect of Bank Soundness Level on Company Profit Growth Using the RGEC Method (Study of Banks for the 2007-2016 Period). Management Journal. 5(2) 1-16

Sugiyono. (2013) Business Research Methods. Bandung: Alphabet
www.idx.co.id
www. ExchangeIndonesian Securities co.id