RJOAS: Russian Journal of Agricultural and Socio-Economic Sciences
ISSN 2226-1184 (Online) | Issue 7(151), July 2024

UDC 332

THE EFFECT OF RETURN ON ASSETS AND RETURN ON EQUITY ON THE GROWTH OF MICRO OPERATING PROFITS

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ABSTRACT
This study aims to determine the relationship between Return on Asset and Return on Equity to Profit Growth. Profit growth is a ratio that describes a company's ability to maintain profits in each period amidst economic growth and its business sector. Business profit growth can be measured by looking at sales growth. This measurement can only see company growth from the company's marketing aspect only. Another measurement is to look at net profit growth, where the input for this net profit growth is capital, while the output is profit. The final measurement of company growth is through measuring the growth of its own capital.

KEY WORDS
Return on asset, return on equity, profit growth, micro business.

UKM is an economic sector consisting of small business units such as the informal business sector, which produce and distribute goods and services, with the main objective of creating employment opportunities and opportunities to earn income for the perpetrators. The growth of the informal sector is increasing rapidly day by day, this is due to the migration of residents from villages to cities which are not matched by adequate skills, and the level of education they have is still low, causing them to be unable to compete in the formal sector which requires competition and skills, high to be competitive.

The obstacles faced by SMEs in order to continue to survive and compete with other formal sectors require good financial management, namely determining how the company will use and manage its financial resources to achieve its goals. Basically, it outlines the steps that need to be taken to grow the business so that it can achieve its goals. Think of it as a roadmap for the future of the company. However, SMEs consist of small-scale business units (small capital, household power, and simple technology) which produce and distribute goods and services with the main aim of creating employment opportunities and income for themselves and their business is very limited by capital, both physical, and human and skills. However, financial management is important for SMEs.

Most companies have financial and non-financial goals. Financial goals relate to the financial sector or money, and the results are measured in monetary terms. For example, if you plan to increase your business's revenue or return on investment, those are financial goals. Business owners may also want to reduce overhead costs, secure funding, reduce marketing costs or eliminate debt.

In contrast, nonfinancial goals are related to employees, customers, technology, or corporate social responsibility. These two goals will certainly be important to help the business grow and increase its market share. However, in this research proposal what will be discussed is how a business such as an SME manages ROA and ROE in its business. Is profit growth in micro businesses influenced by ROA and ROE. This is because it is easy for an informal business to grow but also easy to fall. At first glance it appears that SMEs continue to survive from year to year, but if we look deeper it turns out that these businesses continue to survive, but with different business actors. For example, culinary businesses which are booming in Kendari City, which are found in a number of busy locations, seem to continue to operate every year. It turned out that during that time several business actors had changed in the same place and business.

THEORETICAL FRAMEWORK

According to Tohar (2001: 1) small business is a small-scale people's economic activity, and fulfills the net worth or annual sales proceeds and ownership as stipulated in the law. The definition of small business was put forward by Zulkarnain. He said that small business is a people's economic activity that meets several criteria. (Zulkarnain, 2006:125). From the several opinions that have been mentioned, it can be concluded that small business is a business carried out by someone as the owner of capital or the main actor to gain profits in fulfilling the necessities of life.

According to data obtained from the ministry of the Ministry of Cooperatives and Small and Medium Enterprises (Menegkop and UKM), what is meant by Small Business (UK) which also includes Micro Enterprises (UMI) and Medium Enterprises (UM) which are also business entities owned by citizens Indonesian country.

ROA is one of the profitability ratios used to measure the effectiveness of a company in generating profits by utilizing its total assets (Husnan, 2013: 24). Return on Assets Ratio (Return on Assets) This ratio reflects the profits obtained by the company regardless of where the capital comes from and shows the level of efficiency of the company in carrying out its operations (Hartono, 2006:99). Brigham and Houston (2001:90) state that the ratio of return on total asset (ROA) is a ratio of net income to total asset will be able to measure the return on total assets after interest and taxes.

The greater Return on Assets, it indicates that the company's profits from assets are also increasing, thereby increasing the company's ability to increase profits. Conversely, a smaller Return on Assets indicates that profits on assets have decreased, which will reduce the company's ability to increase profit growth.

If there is an increase in the Return on Assets (ROA) ratio, it will increase profit growth activities. A high ratio results indicate that the company is trying to increase revenue or sales so that profit growth also increases. With the company's efforts to increase the level of income and sales, profit growth will automatically increase through the level of income or sales obtained by the company in one period.

Munawir, (2004) Return on Equity is the ratio used to measure the rate of return on investment that has been invested by capital owners in the company. The lower the Return on Equity indicates the company is not efficient in using capital and the smaller the level of profit earned by the owners of capital.

Return on Equity is one of the profitability ratios used to measure a company's effectiveness in generating profits by utilizing the total assets it owns. Maya in Indrawan (2011: 23) explains that Return on Equity is the tool most often used by investors in making investment decisions. Munawir, (2004) Return on Equity is a ratio used to measure the level of return on investment that has been invested by capital owners in the company. The lower the Return on Equity shows that the company is inefficient in using capital and the smaller the level of profit obtained by capital owners.

Profit growth can be measured by looking at sales growth. This measurement can only see company growth from the company's marketing aspect only. Another measurement is to look at net profit growth, where the input for this net profit growth is capital, while the output is profit. The final measurement of company growth is through measuring the growth of its own capital. (Sartono, 2011: 65).

Profit growth is the change in the percentage increase in profits obtained by the company. Companies that experience positive profit growth every year can attract investors to invest in these companies and companies can predict the company's future prospects regarding company performance (Fernando, 2016). Good profit growth indicates that the company has good finances, which will ultimately increase the value of the company because the amount of dividends to be paid in the future depends on the condition of the company.

Business profit growth can be measured by looking at sales growth. This measurement can only see company growth from the company's marketing aspect only. Another measurement is to look at net profit growth, where the input for this net profit growth is capital, while the output is profit. The final measurement of company growth is through measuring the growth of its own capital.

Hypothesis:

- H1: return on assets and return on equity have a positive and significant effect on the profit growth of SMEs in Kendari City;
- H2: return on assets has a positive and significant effect on the profit growth of Kendari City SMEs;
- H3: Return on equity has a positive and significant effect on the growth of UKM Kendari City profits.

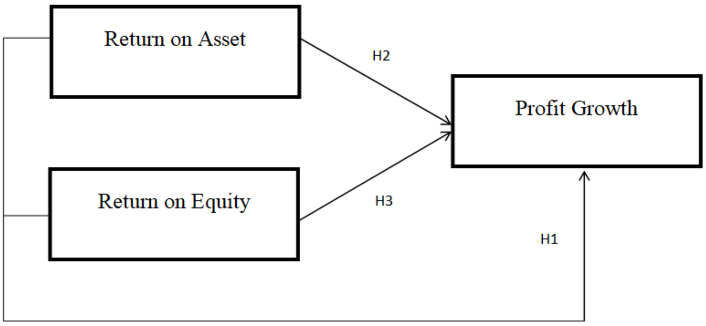

Figure 1 – The Conceptual Framework

METHODS OF RESEARCH

The researcher decided to take the research location around the Kendari religious monument / ex MTQ area and in this case the research objects were all UKM actors/owners in the culinary sector. The population in this research is all culinary businesses in the Kendari Religious Turu (MTQ) area. From the results of observations made by researchers, the total population in this study is 190 businesses, and if we draw a 10% bias from the total population, then the sample to be used in this study is 66 business actors, which is obtained using the Slovin formula.

RESULTS AND DISCUSSION

According to (Ghozali, 2016) the normality test aims to test whether in the regression model, confounding variables or residuals have a normal distribution. The normality test also looks at whether the regression model used is good. A good regression model has a normal or close to normal distribution. This research uses Kolmogorov-Smirnov statistical analysis on residual equations with the test criteria being that if the probability value is > 0.05 then the data is normally distributed and if the probability value is < 0.05 then the data is not normally distributed.

Table 1 – Normality Test with Kolmogorov-Smirnov

		Unstandardized Residual
N		64
Normal Parameters[a,b]	Mean	,2711990
	Std. Deviation	1,35931170
Most Extreme Differences	Absolute	,072
	Positive	,072
	Negative	-,070
Test Statistic		,072
Asymp. Sig. (2-tailed)		,200[c,d]

Source: SPSS 23 output, data processed in 2022.

Apart from the One-Sample Kolmogorov-Smirnov Test statistical test, the normality test is also tested using graphs to determine whether the data is normally distributed or not. The normal distribution will form a diagonal line and plotting the residual data will be compared with the diagonal line. If the residual data distribution is normal, then the line that describes the actual data will follow the actual data.

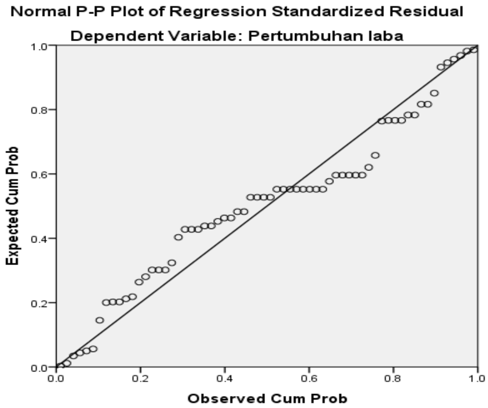

Table 2 – Test Normality With The Normal Probability Plot Approach
(Source: SPSS 23 output, data processed in 2022)

Multiple linear regression analysis is a linear relationship between two or more independent variables and the dependent variable. This analysis is to determine the direction of the relationship between the independent variable and the dependent variable, whether each independent variable is positively or negatively related and to predict the value of the dependent variable if the value of the independent variable increases or decreases.

Table 3 – Results of Multiple Regression Analysis

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	1,058	,592		1,786	,078
ROA	1,490	,098	,815	5,154	,000
ROE	3,077	,199	,622	4,388	,032

Source: SPSS 23 output, data processed in 2022.

The F statistical test in principle aims to determine the effect of two or more variables simultaneously (together) on the dependent variable. There are two ways that can be used to determine whether there is a significant effect in the F test. The first way is to compare the calculated F value with the F table. Meanwhile, in the second way, we can also compare the significance value or probability value from the SPSS calculation results, whether the significance value is greater or less than the statistical standard value, which is 0.05.

Table 4 – Simultaneous /Test F

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	1377,041	2	275,408	311,295	,000^{b}
Residual	60,161	54	,885		
Total	1437,201	61			

Source: SPSS 23 output, data processed in 2022.

The t statistical test basically shows how much influence an explanatory/independent variable individually has in explaining variations in the dependent variable. The alpha value (σ) in this study is 5% or the maximum error rate set by the researcher is 5%, thus if the significance probability is <0.05 then the independent variable has a significant effect on the dependent variable, conversely if the significance is >0.05 then it is not significant effect between the independent variable and the dependent variable.

Table 5 – Partial / test t

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	1,058	,592		1,786	,078
ROA	1,490	,098	,815	5,154	,000
ROE	3,077	,199	,622	4,388	,032

Source: SPSS 23 output, data processed in 2022.

Table 6 – Coefficient of Determination (R^2)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,979[a]	,958	,955	,940594	1,959

Source: SPSS 23 output, data processed in 2022.

The coefficient of determination test (R square) or often symbolized by R2 is interpreted as the contribution of influence given by the variable (X) to the dependent variable (Y). The value of the coefficient of determination (R square) can be used to predict how much influence the independent variable (X) will contribute to the dependent variable (Y) provided that the F test results in the regression analysis are significant. on the other hand, if the results in the F test are not significant then the coefficient of determination (R square) value cannot be used to predict the contribution of variable X to variable Y.

DISCUSSION OF RESULTS

The results of this research show that the Return on Asset and Return on Equity variables have a positive effect on profit growth. The profitability value has a significance that is smaller than 0.05 and the regression coefficient is in a positive direction. This means that if ROA increases, then profit growth will also increase, because the company can maximize existing assets to generate profits. The results of this study confirm Kasmir's theory, (2015: 201) states that return on assets is a ratio that shows the return on the total assets used in a company. This ratio is useful for management to evaluate the effectiveness and efficiency of company management in managing company assets. Return on equity is a ratio to measure net profit after tax with own capital. This ratio shows the power to generate returns on investment based on the book value of shareholders. The higher this ratio, the better, meaning the position of the company owner is stronger.

The results of this research show that the Return on Asset variable has a positive effect on profit growth. The Profitability value has a significance of less than 0.05 and the regression coefficient is in a positive direction, meaning that if Return on Asset increases, then profit growth will also increase, because the company is able to return the investment level of shareholders. Empirical facts prove this research that capital consists of large amounts of capital. itself, the total initial business capital, the average capital required per month by MSMEs in the culinary sector in the Kendari city religious monument area. In an effort to encourage the acceleration of the process of empowering MSMEs during the reform era, it is also apparent that there are quite a lot of policies that should be able to speed up (accelerate) the process of empowering MSMEs. MSMEs and stakeholders are required to be able to provide confidence to decision makers to further encourage the development of many community groups. The results of this research are supported by research by Raka Pratama Ravasadewa, 2018, examining the effect of financial ratios on profit growth with the research results that Return on Asset has a significant effect on profit growth. Based on these results, it can be said that Return on Asset has an effect on profit growth and is in line with this research.

The results of this research show that the ROE variable has a positive effect on profit growth. The profitability value has a significance that is smaller than 0.05 and the regression coefficient is in a positive direction. The higher this ratio, the greater the level of return provided to shareholders. Return on Equity (ROE) is one of the main tools investors most often use in assessing a stock. Empirical facts based on respondents' descriptions regarding Culinary MSME profit growth are influenced by sales results in one month and the amount of profit derived from sales. Developing a business and expanding the SME market share definitely requires support from various parties. With the help of parties related to SMEs, it is hoped that they can contribute to a more concrete Indonesian economy, which consists of various business aspects. Starting from Funding, Production, Distribution, Marketing and Providing Education or Counseling on new innovations in products, as well as counseling on sharia-based financial management. Because most SMEs have low education, they need to provide skills material to run their business.

Return on equity as a ratio that always attracts investors' attention is the profitability ratio which provides information about the company's ability regarding the profits that can be generated, making it an illustration of the level of return that can be given on the investment that has been made to the company. This high ratio shows that funds from shareholders can be managed efficiently to generate profits. The results of the study (Erawati & Widayanto, 2016) state that the effect of return on equity is positive and significant on profit growth. The results of this research are supported by the results of research conducted by Novita Wulan Dari, Budi Wahono, Arini Fitria Mustapita (2018) that return on equity has a significant effect on profit growth.

CONCLUSION

Return on Assets and Return on Equity have a significant effect on the growth of SMEs in the Culinary Sector in the Religious Monument Area of Kendari City. This means that the better ROA management is, the more profit growth will increase.

Return on Assets has a positive and significant effect on profit growth. This means that if ROE increases, then profit growth will also increase, because the company is able to return the investment level of shareholders.

The Return on Equity variable has a positive and significant effect on profit growth for SMEs in the Culinary Sector in the Religious Monument Area of Kendari City. This means that the greater the level of return on funds given to shareholders. Return on Equity (ROE) is one of the main tools investors most often use in assessing a stock

Culinary MSMEs should create additional businesses to increase net profits, such as opening an online shop. For future researchers, the author suggests using other measuring instruments to represent the financial ratios that will be used so that they can have a more significant influence on profit growth or replace or add variables and use different research objects to get different results. For future researchers, it is better to look at the factors that influence profit growth in the companies under study based on the size of the company, the age of the company, the level of sales, and changes in past profits owned by the company.

ACKNOWLEDGMENTS

Thank you to the Faculty of Economics and Business, Halu Oleo Kendari University for providing full support to the authors so that this research could be completed, and to colleagues who have helped complete this paper.

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