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Asset Turnover, Inventory Turnover, Dividend Policy and Profit Growth

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ABSTRACT

This study aims to determine the effect of total asset turnover, inventory turnover, and dividend policy on profit growth. Total asset turnover is measured using the ratio between sales and total assets, inventory turnover is measured using the ratio between the cost of goods sold and average inventory, and dividend policy is measured using the dividend payout ratio (DPR), which compares dividends per share with earnings per share. Meanwhile, profit growth is measured by subtracting the current period's profit from the previous period's profit and dividing it by the previous period's profit. This study's population is healthcare sector companies listed on the Indonesia Stock Exchange for 2017-2021. The number of samples in this study was 7 companies obtained through purposive sampling and obtained sample data of 35 data. This study's data type is secondary data with quantitative research methods. The analysis technique used is panel data regression analysis with a significance level of 3%. This research was processed using Eviews 9 software. It showed that (1) Total Asset Turnover had a significant effect on Profit Growth, (2) Inventory Turnover had a significant effect on Profit Growth, and (3) Dividend Policy had no significant effect on Profit Growth.

Keywords: Asset Turnover, Inventory Turnover, Dividend Policy, Profit Growth.

1. INTRODUCTION

A company's profit growth can describe the company's performance (Kaman & Sitohang, 2018) and (Firman & Salvia, 2021). It is because profit growth is a ratio to measure the extent to which a company can increase its net profit compared to the previous period (Harahap, 2015; Petra & et al., 2020). If the company has a maximum target which is the company's goal, then the success of a company can be judged by how much the target has been achieved and how much profit has been obtained (Anggraeni & Ardini, 2020). The greater the company's ability to generate profits, the more profit growth will increase (Rahmawati & et al., 2022).

However, profit growth does not always describe company performance (Tabbusalla, 2022). That is because there are several conditions in which the company experienced an increase in net profit but still needs to reach

the maximum target. It happened to one of the healthcare sector companies, namely PT. Kalbe Farma Tbk is targeting net profit for 2017 to grow by 8% -10% compared to the previous period. However, the net profit for the 2017 period only increased by 4.5% compared to the previous period (Kontan.co.id, 2018). It shows that several factors influence profit growth, including Total Asset Turnover (Badriyah & Amanah, 2021), Inventory Turnover (Petra & et al., 2020), and Dividend Policy (Tabbusalla, 2022).

One of the factors that influence profit growth is total asset turnover. Total asset turnover (total asset turnover) is the basis for the efficient use of assets in generating income (Kaman & Sitohang, 2018). The higher the total asset turnover, the better the profit level obtained (Rusdianto & et al., 2020). High total asset turnover illustrates a company's ability to

maximize its assets to obtain profit (Rusdianto & et al., 2020). If the turnover of assets in a company is high, then the level of sales in one period will also increase, so the company's net profit will also increase (Nasution & et al., 2022). Therefore, it can be concluded that total asset turnover influences supporting sales operations and can maximize company profit growth (Badriyah & Amanah, 2021).

The next factor that can affect profit growth is inventory turnover. Inventory turnover is a picture of performance in operational activities (Petra & et al., 2020). The higher the inventory turnover rate, the greater the company's profit and vice versa (Raharja Putra, 2009; Petra & et al., 2020). It is because inventory turnover can determine how much capital a company uses (inventory) in one period (Nurdiana, 2019). If a company's inventory is often sold and the company continues to produce a product in one period, the company will increase profits (Nurdiana, 2019) and (Hazimah & et al., 2022). Therefore, it can be concluded that inventory

turnover influences sales development which can increase company profits (Petra & et al., 2020).

Another factor that influences profit growth is dividend policy. According to Sartono (2011), dividend policy is one of the considerations in making decisions about whether profits earned by the company will be distributed to shareholders as dividends or retained in the form of retained earnings as future investment financing. The higher the dividends distributed, the less retained earnings, which can result in hampered profit growth rates (Selviana & Fun, 2016). If a company experiences large profits in one period, it is deemed fit to distribute most of its profits to shareholders, resulting in reduced capital for its operational activities (Anggraeni & Ardini, 2020). Therefore, it can be concluded that the dividend policy has the influence to support increasing profits in the coming period (Tabbusalla, 2022).

2. LITERATURE REVIEW

The relationship between agency theory and the effect of total asset turnover on profit growth is an asset as a basis for efficiency in generating income (Kaman & Sitohang, 2018). It is because total asset turnover influences supporting sales operations and can maximize company profit growth, where a manager has full responsibility for the company's sustainability (Badriyah & Amanah, 2021). For example, suppose shareholders entrust the managers of a company with asset turnover. In that case, the company must be able to increase sales in that period so that the company's net profit also increases (Nasution & et al., 2022).

The relationship between signal theory and the effect of inventory turnover on profit growth is an activity in the continuity of operational activities in obtaining a profit (Petra & et al., 2020). It is because inventory turnover can be seen from how often production activities are carried out, which can be a positive signal (Nurdiana, 2019). For example, suppose a company continues to carry out production activities, provide an inventory of a product, and sell a product in one period. In that

case, it can experience an increase in profits which is a positive signal for the company and shareholders.

The relationship between signal theory and the influence of dividend policy on profit growth is a policy in determining the amount of profit earned by the company to be distributed to shareholders as dividends or as retained earnings (Anggraeni & Ardini, 2020). It is because it is an effort to balance the interests of a company in increasing profit growth and the interests of shareholders in optimizing the size of dividends in providing a signal for profit growth (Anggraeni & Ardini, 2020). For example, suppose a company chooses to retain earnings. In that case, it will strengthen or enlarge its funding sources which can provide a positive signal to support increased profits in the next period.

A company's profit growth can describe the company's performance (Kaman & Sitohang, 2018) and (Firman & Salvia, 2021). It is because profit growth is a ratio to measure the extent to which a company can increase its net profit compared to the previous period



(Harahap, 2015; Petra & et al., 2020). If the company has a maximum target which is the company's goal, then the success of a company can be judged by how much the target has been achieved and how much profit has been obtained (Anggraeni & Ardini, 2020). The greater the company's ability to generate profits, the more profit growth will increase (Rahmawati & et al., 2022).

Total Asset Turnover is the basis for the efficient use of assets in generating income (Kaman & Sitohang, 2018). It is because high asset turnover reflects the company's ability to maximize its total assets to earn profits (Rusdianto & et al., 2020). For example, if a company maximizes the use of its total assets to support sales levels in one period, profits can increase (Nasution & et al., 2022).

A company's inventory turnover shows its performance in its operational activities (Petra & et al., 2020). That is because the higher the inventory turnover rate, the greater the possibility that the company will earn a profit, and vice versa. If the inventory turnover rate is low, then it is less likely that the company will make a profit (Raharja Putra, 2009; Petra & et al., 2020). For example, if a company maximizes its production activities in one period, it will get an increase in profits.

A dividend policy creates a balance between current dividends and future growth to optimize a company's stock price (Selviana & Asyik, 2016). It is because the dividend policy is one of the considerations in making decisions to shareholders as dividends or will be retained in the form of retained earnings as investment financing in the future (Tabbusalla, 2022). For example, suppose a company in one period gets high-profit growth and is considered appropriate to distribute it to shareholders. In that case, the company must make the most appropriate decision to increase profits in the future so that the dividends distributed to shareholders are relatively large or small.

Total asset turnover influences profit growth. It is because total asset turnover illustrates the effectiveness of asset utilization in generating sales. Increased total asset turnover is indicated by the effectiveness of a company in managing assets, where there are no assets that are not used to carry out

production to increase sales, so if a company's sales increase, it will earn a profit. This statement follows agency theory, explaining that total asset turnover can support sales operations and maximize company profit growth. This statement is supported by research conducted by Badriyah & Amanah (2021) and Hazimah & et al. (2022), which state that total asset turnover affects profit growth. Based on the discussion above, the hypothesis can be formulated:

H₁: Total Asset Turnover has a significant effect on Profit Growth.

Inventory turnover influences profit growth. It is because inventory turnover is a company's inventory turnover in generating sales. Inventory turnover increases as indicated by the increase in inventory of a company that sells a lot and continuously holds an inventory in one period so that its sales increase and it earns a profit. This statement follows the signal theory, which explains that Inventory turnover can determine or influence the smoothness of production as well as the effectiveness and efficiency of a company. Research conducted by Petra supports this statement by Nasution et al. (2020) and Hazimah & et al. (2022), which states that inventory turnover affects profit growth. Based on the discussion above, the hypothesis can be formulated:

H₂: Inventory Turnover has a significant effect on Profit Growth.

Dividend policy influences profit growth. It is because the dividend policy is one of the considerations in making the best decision regarding the profits earned by the company to be distributed to investors or kept for investment costs as retained earnings. If the dividends distributed by a company are small, then retained earnings are high, which can be used to develop a product in the future that will be more effective to increase sales and obtain a profit for the company. This statement follows the signal theory in which dividend policy can balance a company's and shareholders' interests in increasing profit growth and optimizing the number of dividends. Research conducted by Nasution supports this statement by Nasution et al. (2022) and Tabbusalla (2022), which state that dividend policy affects profit growth.

Based on the discussion above, the hypothesis can be formulated:

H₃: Dividend Policy has a significant effect on Profit Growth.

3. RESEARCH METHOD

The type of research used in this study is a quantitative method. According to Sugiyono (2019), the quantitative research method can be interpreted as a research method based on the philosophy of positivism, used to research specific populations or samples, collecting data using research instruments, data analysis is quantitative or statistical, to test established hypotheses. The quantitative method is used to

find out how much influence there is between variables.

3.1. Data Collection Techniques

The data collection techniques in this study are documentation, literature study, and online research of healthcare industry companies listed on the Indonesia Stock Exchange for the 2017-2021 period.

3.2 Operational Definitions of Variables

Table 1: Variable Measurement

No	Variabel	Indikator
1	Total Asset Turnover (X ₁) (Kaman & Sitohang, 2018)	TAT = Total Sales / Total Asset
2	Inventory Turnover (X ₂) (Petra & et al, 2020)	IT = Cost of Revenue/ Average Inventory
3	Dividend Policy (X ₃) (Anggraeni & Ardini, 2020)	DPR = Dividend Per Share / Earnings Per Share
4	Profit Growth (Y) (Badriyah & Amanah, 2021)	PG = Net Profit t – (Net Profit t-1) / Net Profit t-1

3.2. Sample Collection Techniques

The population referred to in this study is a manufacturing company in the healthcare industry sector which was listed on the Indonesia Stock Exchange in 2017-2021 and has been published. There are 27 companies in the healthcare industry sector listed on the Indonesia Stock Exchange for the 2017-2021 period. In this study, the sampling technique used purposive sampling technique. With the following criteria:

1. Healthcare industry companies listed on the IDX for 1 January 2017 – 31 December 2021.
2. Healthcare industry companies that publish financial reports from 1 January 2017 – 31 December 2021.

3.3. Data Analysis Techniques

The data analysis technique used in this study begins with a descriptive test, then selects a panel data regression model that fits the research by conducting the Chow test, Hausman test, and Lagrange Multiplier test and continues with the classic assumption test, which consists of the normality test,

multicollinearity test, Heteroscedasticity test, and autocorrelation test. After that, it is continued with a regression analysis test, coefficient of determination test, and hypothesis test. All tests were performed using EViews version 9 software.

Panel data regression analysis aims to determine the relationship between several independent variables with one dependent variable. In this study, the independent variables consist of total asset turnover, inventory turnover, and dividend policy, while the dependent variable is profit growth. According to Sugiyono (2017), the formula used to test panel data regression analysis is as follows:

$$Y = \alpha + \beta X_1 + \beta X_2 + \beta X_3 + e$$

Where:

Y	= Profit Growth
α	= Constanta
β	= Coefficient
X ₁	= Total Asset Turnover
X ₂	= Inventory Turnover
X ₃	= Dividend Policy
e	= Error

4. RESULTS AND DISCUSSIONS

4.1. Results

Table 2: Statistic Descriptive

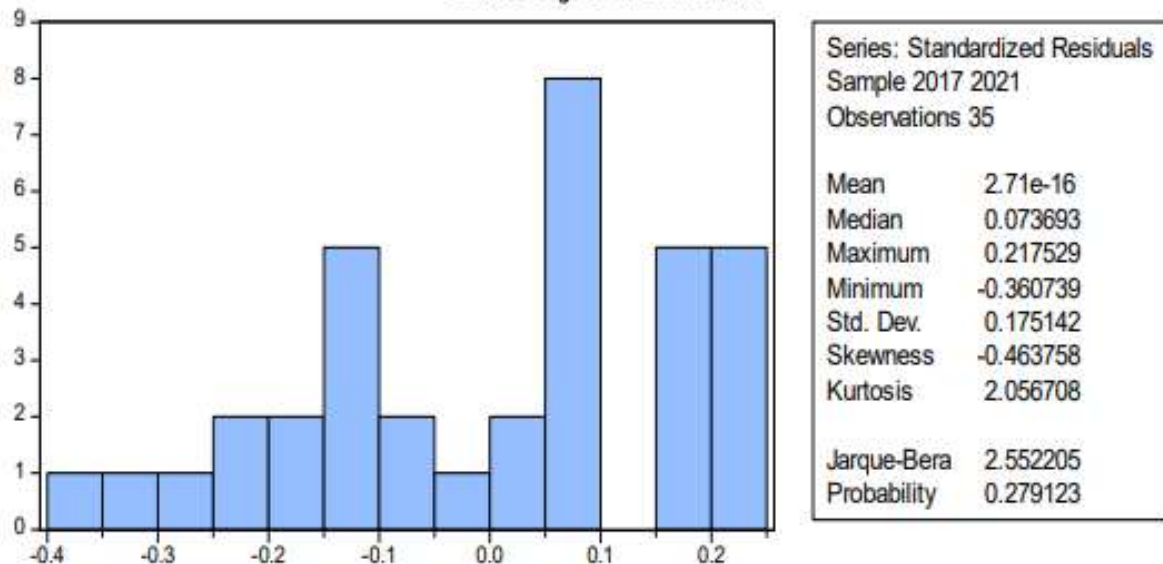
Variables	N	Mean	SD	Min	Max
Dependent variables:					
<i>Profit Growth</i>	35	0.191827	0.202522	-0.269228	0.532815
Independent variables:					
<i>Asset Turnover</i>	35	0.973988	0.229033	0.529646	1.313047
<i>Inventory Turnover</i>	35	10.47056	11.71001	2.250426	37.83132
<i>Dividend Policy</i>	35	0.289189	0.360149	0.000000	1.081609

Source: Proceed by E-views, 2022

Table 2 shows that the average value (mean) of profit growth is equal to 0.191827, which means that the average net profit this year obtained in the sampled companies during the observation period was 19% of the previous year's net profit. The average value (mean) of total asset turnover is 0.973988, which means that the average company sampled during the observation period in this study makes asset turnover 97 times in one year. The average

value (mean) of inventory turnover is 10.47056, which means that the average company sampled during the observation period in this study makes inventory turnover 10 times a year. The average value (mean) of dividend policy is 0.289189, which means that the average company used as a sample during the observation period to distribute net profit as dividends of 28.91%.

Figure 1: Normality Test



Source: Proceed by E-views, 2022

The normality test for the four regression models in this study shows, as shown in picture 1 that the significance greater than 0.05.

According to the normality test residuals have a normal distribution.

Table 3: Multicollinearity test

Variables	Asset Turnover	Inventory Turnover	Dividend Policy
Asset Turnover	1.000000		

Inventory Turnover	-0.813491	1.000000	
Dividend Policy	-0.271700	-0.165470	1.000000

Source: Proceed by E-views, 2022

Table 3 indicates no multicollinearity issues between variables in this study is still below

0.85, indicating no multicollinearity issue between these variables.

Table 4: Regression test

Variables	Coefficient	Sig.
Independent variables:		
Asset Turnover	0.939449	0.0014
Inventory Turnover	0.316447	0.0004
Dividend Policy	0.118037	0.3541
<i>R-square</i>	32.73%	
<i>Prob(F-statistic)</i>	0.01	
<i>Observations</i>	35	

Source: Proceed by E-views, 2022

4.2. Discussion

The first hypothesis put forward in this study is that total asset turnover has a significant effect on profit growth. The tests' results show that the total asset turnover probability value is 0.0014, meaning that the probability value is smaller than the significance value (0.05). Therefore, the total asset turnover variable significantly affects profit growth. It shows that the first hypothesis is accepted.

The regression coefficient and significance test explain that total asset turnover significantly affects profit growth, meaning that if asset turnover in a company is high, then the level of sales in one period will also increase so that the company's net profit also increases from the previous year. That is because asset turnover influences supporting sales operations and can maximize company profit growth. The higher the asset turnover, the higher the company's ability to earn profits, maximizing total assets in earning profits and vice versa.

The results of this study are in line with research conducted by (Hazimah & et al., 2022), (Badriyah & Amanah, 2021), and (Rahmawati & et al., 2022), which state that total asset turnover has a significant effect on profit growth. The results of this study are undoubtedly contrary to research that has been conducted by (Rusdianto & et al., 2020) (Tabbusalla, 2022), (Kaman & Sitohang, 2018), (Anggraeni & Ardini, 2020) (Firman & Salvia, 2021) and (Nasution & et al., 2022) which

states that total asset turnover has no significant effect on profit growth.

The second hypothesis put forward in the study is that inventory turnover has a significant effect on profit growth. The tests' results show that the probability value of inventory turnover is 0.0004, meaning that the probability value is smaller than the significance value (0.05). Therefore, the variable inventory turnover has a significant effect on profit growth. It shows that the second hypothesis is accepted.

The regression coefficient and significance test explain that inventory turnover significantly affects profit growth, meaning that if a company's inventory is sold a lot and the company continues to hold inventory in one period, the company's profit will increase. That is because the higher the level of inventory turnover, the greater the company will get profits and can increase company profits which shows the company's performance in its operational activities.

This study's results align with research conducted by (Petra & et al., 2020) and (Hazimah & et al., 2022), which state that inventory turnover affects profit growth. The results of this study are undoubtedly contrary to research conducted by (Nurdiana, 2019), which states that inventory turnover has no significant effect on profit growth.

The third hypothesis proposed in the study is that dividend policy has a significant effect on profit growth. The results of the tests show that the dividend policy's probability value is



0.3541, meaning that the probability value is greater than the significance value (0.05). Therefore, the dividend policy variable has no significant effect on profit growth. It shows that the third hypothesis is rejected.

The regression coefficient explains that the dividend policy has no significant effect on profit growth, meaning that profit growth will not be affected if the dividend policy increases or decreases. A higher dividend payout ratio will benefit investors, but the company will weaken internal finances because it reduces retained earnings, causing an insignificant effect on profit growth. For example, PT Industri Jamu dan Farmasi Sido Muncul Tbk in the 2018 period distributed a dividend of 95%, where the profit growth in the 2018 period was 24%. However, in 2018, PT Darya Varia Laboratoria Tbk distributed smaller dividends than PT Industri Jamu and Farmasi Sido

Muncul Tbk, and the profit growth remained the same at 24%. It also happened to PT Prodia Widyahusada Tbk in the 2019 period distributing dividends of 50%, where the profit growth in the 2019 period was 20%. However, during 2019, PT Mitra Keluarga Karyasehat Tbk distributed smaller dividends than PT Prodia Widyahusada Tbk, and the profit growth remained at 20%. This example can strengthen the argument that whatever dividends are distributed to shareholders does not significantly affect profit growth.

This study's results align with research conducted by (Anggraeni & Ardini, 2020) and (Selviana & Fun, 2016), stating that dividend policy has no significant effect on profit growth. The results of this study are in contrast to research conducted by (Tabbusalla, 2022) and (Nasution & et al., 2022), which state that dividend policy affects profit growth.

5. CONCLUSIONS

Based on the research results obtained and the discussion previously described, asset turnover significantly affects profit growth. Inventory turnover significantly affects profit growth, and dividend policy has no significant effect on profit growth. Therefore, for future researchers, it is recommended to add new variables that influence profit growth which can broaden the discussion of the factors that influence profit growth and increase the sample and research period so that more samples will

be obtained and the research period will be extended. Used in research, the results of the research will be more precise. Future research is also advised to choose a more comprehensive different type of industry if they want to do the same research. As for companies, it is advisable to publish annual reports consistently so that investors can find out whether the results of the financial reports produced each period continue to increase or decrease.

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