

IMPACT OF PROFITABILITY (NET PROFIT MARGIN) ON FIRM VALUE IN RETAIL COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE

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Abstract

This study aims to analyze the effect of Net Profit Margin (NPM) on firm value in retail companies listed on the Indonesia Stock Exchange (IDX) for the period 2017-2023. The research sample consisted of 10 companies selected using purposive sampling. Data were analyzed with SPSS version 26 using normality test, heteroscedasticity, t test, and R-squared test. The results show that NPM has a significant effect on firm value with a significance of 0.032 and a t-statistic of -2.207, which indicates a negative relationship. The R-squared test results show that NPM only explains 9.2% of the variation in firm value.

Keywords: Net Profit Margin (NPM), Firm Value, Retail Companies, Indonesia Stock Exchange (IDX)

INTRODUCTION

Retail companies listed on the Indonesia Stock Exchange (IDX) face great challenges in maintaining and increasing firm value amid intense competition. In the retail sector, firm value is not only influenced by increased revenue, but also by profitability, which is often measured by Net Profit Margin (NPM). NPM measures the amount of net profit generated from each sale and reflects the efficiency and effectiveness of management in managing operational costs while increasing profit margins. For investors, a high company value usually indicates good performance and promising growth prospects, thus attracting investment interest.

However, some retail companies on the IDX show that despite their large revenues, NPM is still relatively low. This problem is often caused by high operating costs, cost of goods sold, or intense competition that forces companies to lower prices to attract customers. This low profitability has the potential to reduce attractiveness in the eyes of investors because companies that cannot maintain a high NPM are often considered less efficient in managing assets and more vulnerable to changing market conditions. As a result, the value of the company may decrease in the eyes of investors, especially in the highly competitive retail sector.

The impact of NPM on firm value in the retail industry is very important to understand the extent to which profitability plays a role in influencing investor perceptions and ultimately impacts the company's share price. If a significant relationship is found between NPM and firm value, companies can focus more on strategies to increase profit margins through cost efficiency and price optimization. In addition, the results of this study can also provide information for investors in making investment decisions, taking into account that a high NPM can be an indicator of the company's financial stability and potential for sustainable growth.

Company value reflects the achievement of a company as a result of public trust that has been formed since the company's inception until now. This company value can be interpreted as the agreed price that will be paid by prospective buyers. The higher the share price of a company, the higher the value of the company, which has an impact on increasing investor welfare. Conversely, a low share price will reduce the company's value and can affect investors' negative perceptions of the company's performance (Oktavia et al., 2023).

Many investors tend to invest in a company only based on the promised profits, without understanding whether the company is actually making a profit or actually experiencing losses in its management. The phenomenon that emerges is that many companies build an image that looks attractive from the outside, by offering high stock returns, but actually only prioritize increasing profits and assets to enlarge the company. Nowadays, there are also many new companies that are growing rapidly even though their financial statements show losses, because they have succeeded in building a high-value corporate image. This high company value often attracts the interest of many parties to invest (Fadilah et al., 2021)

LITERATURE REVIEW AND HYPOTHESIS FORMULATION

The NPM ratio is able to measure management's ability to manage company operations efficiently, with the aim of reducing company expenses and increasing profits optimally (Putri, 2013). The same thing to measure the Net Profit Margin ratio is used to measure the extent of the company's success in generating net income from its sales (Ningrum, 2022). Overall, the Net Profit Margin (NPM) ratio is an important indicator that reflects the effectiveness of management in managing the company's operations efficiently to reduce expenses and maximize profits. This ratio is also used to assess the extent of the company's success in generating net income from sales activities, thus becoming an important measure of the company's financial performance.

Firm value describes how investors view the company, which is usually reflected in its share price. This is very important, because the higher the value of the company, the greater the welfare that can be enjoyed by shareholders (Mohklas, 2019). High company value can have a positive impact on dividend distribution and improve the welfare of shareholders (Julia & Umar, 2021). This means that the company's value reflects the investor's view of the company, which can be seen from its stock price. High firm value is very important, because it can have a positive impact on dividend distribution and improve the welfare of shareholders.

RESEARCH METHODS

This study applies a methodology involving a sample of 10 retail companies listed on the Indonesia Stock Exchange (IDX). This sample was selected based on company data for a period of 5 years, from 2019 to 2023, to obtain a representative picture of the performance and characteristics of retail companies during that period. The sampling technique used is purposive sampling, which means that the sample is selected with certain criteria relevant to the research objectives. The collected data was then analyzed using SPSS version 26 software, which provides various statistical tests to evaluate the relationship and impact between the variables under study. In data analysis, this study only tested normality, heteroscedasticity, t-test, and R- squared test to ensure the feasibility of the model and the relationship between existing variables.

Table 1. Retail companies studied

No.	Company Name
1	PT Duta Intidaya Tbk
2	PT Enseval Putera Megatrading Tbk

3	PT Millennium Pharmacon International Tbk
4	PT Diamond Food Indonesia Tbk
5	PT Prima Cakrawala Abadi Tbk
6	PT Sumber Alfaria Trijaya Tbk
7	PT Midi Utama Indonesia TBK
8	PT Matahari Putra Prima Tbk
9	PT Supra Boga Lestari Tbk
10	PT Indoritel Makmur Internasional Tbk

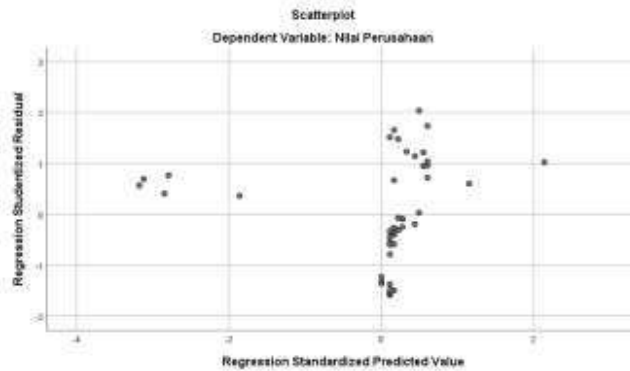
RESULTS

Normality Test Results

One-Sample Kolmogorov-Smirnov Test		
Unstandardized Residual		
Normal Parameters ^{a,b}	Mean	.0000000
	Std. Deviation	.37429302
Most Extreme Differences	Absolute	.108
	Positive	.108
	Negative	-.068
Test Statistic		.108
Asymp. Sig. (2-tailed)		.200 ^{c,d}
a. Test distribution is Normal.		
b. Calculated from data.		
c. Lilliefors Significance Correction.		
d. This is a lower bound of the true significance.		

The normality test aims to test whether the data used in the study follows a normal distribution or not. In this case, the normality test results show a value of 0.200, which is greater than the standard value of 0.05. This indicates that the data tested is normally distributed. Statistically, if the significance value (p-value) is greater than 0.05, then the data can be considered normally distributed. In other words, since the normality test results are greater than the standard value of 0.05, it can be concluded that the data used in this study fulfill the assumption of normal distribution and no further transformation of the data is required.

Heteroscedasticity Test Results



The heteroscedasticity test is conducted to check whether there is an inequality of variance (data spread) in the regression data used in the study. One way to test for heteroscedasticity is to use a scatter plot, which plots the predicted value against the residual (the difference between the observed value and the predicted value).

The result of the scatter plot that shows an even distribution of data without any clumped dots indicates that there is no heteroscedasticity problem. This means that the variance of the residuals is independent of the predicted values and the distribution is quite stable across the range of values. Thus, the absence of clumpy patterns or certain trends in this scatter plot indicates that the regression model used in this study does not experience heteroscedasticity, and the assumptions of the regression model related to the equality of residual variances are met.

Partial t Test Results

Coefficients ^a						
Unstandardized Coefficients				Standardized	t	Sig.
Model	B	Std. Error	Beta			
1	(Constant)	.943	.056		16.985	.000
	Net Profit Margin	-.653	.296	-.304	-2.207	.032

a. Dependent Variable: Company Value

The partial t test results show a significance value of 0.032, which is smaller than the standard value of 0.05. This means that the tested variable, in this case Net Profit Margin (NPM), has a significant effect on firm value. In other words, changes in NPM can statistically affect changes in firm value, because the p-value is smaller than 0.05, indicating that the relationship does not occur by chance.

In addition, the t-statistic result obtained of -2.207 indicates the direction and strength of the relationship between the independent variable (NPM) and the dependent variable (firm value). The negative t-statistic value indicates that there is a negative relationship between NPM and firm value, which means that if NPM increases, firm value tends to decrease, or vice versa. The greater the t-statistic value in absolute value (both positive and negative), the stronger the relationship between the two variables. In this case, the value of -2.207 indicates that the relationship is significant and quite strong, but the direction is negative.

R-Square Test Results

Model Summary ^b				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.304 ^a	.092	.073	.378172
a. Predictors: (Constant), Net Profit Margin				
b. Dependent Variable: Company Value				

The R-squared (R^2) test results obtained of 0.092 indicate that about 9.2% of the variation in firm value can be explained by the Net Profit Margin (NPM) variable used in the regression model. In other words, although NPM has an influence on firm value, the proportion of its influence is relatively small, which is only 9.2%. Most of the variation in firm value (around 90.8%) is influenced by other factors not included in this model.

Meanwhile, the R value of 0.340a indicates a positive relationship between NPM and firm value, although the relationship is not very strong. The R value close to 0.34 indicates that there is a moderate correlation between the two variables, which means that an increase in NPM can be related to an increase in firm value, although the effect is not very large. Overall, these results suggest that although there is a significant relationship, other factors also influence firm value more dominantly.

RESULTS AND DISCUSSION

The effect of Net Profit Margin (NPM) on firm value in retail companies listed on the Indonesia Stock Exchange (IDX) is very important to understand, because NPM reflects the company's ability to generate net profit from each sale made. Retail companies that have high NPM are generally considered efficient in managing operating costs and increasing revenue, which in turn can increase company value. As an indicator of profitability, NPM gives an idea of how the company is able to maintain financial stability and profit growth, which is a major concern for investors.

In retail companies listed on the IDX, the level of intense competition can affect the amount of NPM. For example, a company that is able to maintain a high NPM, despite facing price pressures and increasing operating costs, shows efficiency in management and cost management. This makes the company more attractive to investors, who assume that the company has the potential to grow and generate sustainable profits. Conversely, companies with low NPM are often perceived as less efficient, which can affect investor perceptions and ultimately lower the value of the company.

However, although NPM is an important factor in determining firm value, its influence on firm value cannot be seen in isolation. Other factors, such as market conditions, corporate strategy, and other external factors, also influence investment decisions. For example, a retail company that has a high NPM but fails to adapt to market trends or has managerial problems may not succeed in significantly increasing the value of the company. Therefore, while NPM provides important information, investors need to consider various other factors to assess the overall performance and prospects of the company.

CONCLUSION

Based on the discussion and t test results above, it can be concluded that Net Profit Margin (NPM) has a significant influence on firm value in retail companies listed on the Indonesia Stock Exchange. The t test results show a significance value of 0.032 which is smaller than 0.05, indicating that NPM has an effect on firm value. In addition, the t-statistic value of -2.207 indicates a negative relationship between NPM and firm value, which means that an increase in NPM tends to be followed

by a decrease in firm value. Nevertheless, the effect of NPM on firm value is still limited, considering that the R-squared test results only show 9.2% of the variation in firm value that can be explained by NPM, which indicates that other factors also influence firm value.

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