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Maximizing profits: How productivity drives success in personal care companies

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Abstract

This research aims to analyze the effect of productivity on Return on Equity (ROE) in personal care products subsector companies listed on the Indonesia Stock Exchange (BEI) during the 2019-2023 period. Productivity in this research is measured using the ratio of EBIT to Total Production Costs, while asset use efficiency is measured using Total Asset Turnover (TATO). The data used in this research were obtained from the annual financial reports of companies included in the personal care products subsector. The analytical method used is multiple linear regression to test the effect of productivity and TATO on ROE. The research results show that productivity as measured by the ratio of EBIT to Total Production Costs does not have a significant influence on ROE. Meanwhile, TATO shows a significant influence on ROE in the companies studied. These findings indicate that in the personal care products subsector, asset use efficiency has an influence on ROE. However, considering that the R2 value is less than 50 percent, it is very important to consider that factors such as marketing strategy, product innovation, and cost management may play a more dominant role in determining a company's financial performance. This research provides insight for company management and investors about the importance of considering various factors that influence profitability and overall financial performance. It is recommended for further research to expand the independent variables studied and consider external conditions that can influence research results.

Keywords: Personal care product, Productivity, Return on Equity (ROE), Total Asset Turnover (TATO)

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1. Introduction

Company performance can generally be seen through financial reports made every year reports play an important role because they provide information about the company's financial condition. This information is used to assess the company's performance in gaining profits through operational efficiency (Andy et al., 2020). The progress of a company is often measured by the development of profits obtained from one period to the next. A consistent increase in profits indicates good job prospects for the company Financial (Huda et al., 2020; Ningsih et al., 2020; Sihwahjoeni et al., 2020).

One way to assess a company's ability to generate profits is to analyze profitability ratios. This analysis aims to measure the company's development from year to year. One of the performance indicators that is of primary concern to investors is Return on Equity (ROE), which is an important ratio in evaluating the efficiency of a company's use of its own capital to generate profits for shareholders. The consistent increase in ROE

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reflects management's success in managing company operations, optimizing the use of capital, and creating added value for shareholders. Conversely, a low ROE can indicate problems in company management, such as inefficient use of capital or poor operational performance (Christia et al., 2021).

A company's financial performance is one of the main indicators used by management and investors to evaluate the health and operational success of a company. One of the most significant financial ratios in this case is Return on Equity (ROE). ROE measures the efficiency of a company's use of equity capital to generate profits for shareholders. The higher the ROE, the more effective the company is in managing and optimizing the use of its capital, which ultimately increases value for shareholders. Productivity, which in the context of this research is measured by the ratio of EBIT to Total Production Costs, is an important indicator in assessing a company's operational performance (Ananta et al., 2021; Nurmansyah et al., 2019; Setyawan et al., 2020; Ture & Cahyaningsih, 2023). Productivity reflects a company's efficiency in using its resources to produce the desired output. In a competitive industry such as personal care products, increasing productivity is key to maintaining competitive advantage and long-term profitability. Operational efficiency, measured through the Total Assets Turnover (TATO) ratio, shows how effectively a company uses its assets to generate sales. A high TATO shows that the company is able to optimize its assets to create high income, which in turn can increase net profit and ROE. Previous research has identified a relationship between productivity, operational efficiency, and ROE. For example, research by Handayani et al. (2021), Khasanah & Suwarti (2022), and Lumapow & Tumiwa (2017) shows that TATO has a positive correlation with ROE in the service industry. Another study by Nor et al. (2016) found that operational productivity increases ROE in manufacturing companies. However, studies that combine these three concepts in the context of the personal care product industry are still limited. Productivity is an indicator of success in utilizing resources to produce desired products, so many companies try to increase their productivity (Carbone, 2017; Lumapow & Tumiwa, 2017; Van Reenen, 2011). In this research, productivity is measured using the ratio of EBIT to Total Production Costs, which shows the company's efficiency in managing production costs to generate profits. Increased productivity allows companies to reduce operational costs, increase output, and ultimately increase net profit. Higher efficiency in resource use also means a company can generate more revenue with the same or even fewer assets, which increases profit margins and ROE.

Total Asset Turnover (TATO) measures the productivity of assets in generating sales. The efficiency of asset use can have a direct impact on a company's profitability and financial performance. Companies that are able to optimize their assets to generate high sales tend to have lower operating costs and higher profit margins, which in turn increases net profit, an important component in ROE calculations. For investors, productivity and TATO are important indicators in assessing a company's operational efficiency and performance, which helps in making investment decisions. Investors tend to choose companies with high productivity and the ability to use their assets efficiently to generate high sales and profits (Colline, 2022). Increased productivity and TATO not only benefit the company's internal operations and have a positive impact on ROE, but also attract investor interest, which in turn can increase the company's market value.

In the personal care products sub-sector listed on the Indonesia Stock Exchange (BEI), there are eight main companies representing this industry. The personal care products industry is highly competitive, and companies in this sector must continuously improve their operational performance to maintain and increase market share. These companies play an important role in providing various products necessary for personal care and hygiene, especially since the increase in health awareness during the COVID-19 pandemic.

Productivity, in the context of this research measured by the ratio of EBIT to Total Production Costs, is an important indicator in assessing a company's operational performance. Productivity reflects the efficiency of a company in utilizing its resources to produce the desired output. In a competitive industry like personal care products, increasing productivity is key to maintaining competitive advantage and long-term profitability (Zhang et al., 2020). Operational efficiency, measured by the Total Assets Turnover (TATO) ratio, indicates how effectively a company uses its assets to generate sales. A high TATO shows that the company can optimize its assets to create high revenue, which in turn can increase net profit and ROE (Khasanah & Suwarti, 2022; Panjaitan et al., 2022). However, studies that combine these three concepts in the context of the personal care product industry are still limited. Connecting these concepts, high productivity can enhance operational efficiency, which ultimately contributes to an increase in ROE. Better productivity allows companies to reduce production costs and increase output, while improved operational efficiency through optimized asset use results in higher sales. The combination of high productivity and operational efficiency enables companies to enhance their equity profitability. This study fills a gap in the literature by analyzing the impact of total productivity and TATO on ROE in personal care product sub-sector companies listed on the IDX during the 2019-2023 period. Thus, this research provides new insights into understanding the financial performance dynamics in this increasingly important industry, especially in the context of the Indonesian stock market, which has experienced various dynamics during this period. Based on the background and the existing research gap, this study aims to answer the question: "To what extent do total productivity and TATO affect ROE in personal care product sub-sector companies in Indonesia?" Through this analysis, it is expected to provide more comprehensive insights for company management and investors in making better strategic decisions.

2. Hypotheses Development

Total productivity is an important measure that shows a company's efficiency in managing resources to produce output. In this context, productivity is calculated as the ratio between Earnings Before Interest and Taxes (EBIT) and Total Production Costs. The higher this ratio, the more efficient the company is in generating profits before interest and taxes from its production costs. High total productivity reflects good operational efficiency. This efficiency means the company can produce more output or reduce production costs without reducing product quality. Good operational efficiency will have a positive impact on the company's profitability because lower costs or higher output will increase the company's net profit. By increasing productivity, companies can reduce the cost per unit of product produced. This cost reduction can occur through various means, such as improving production technology, optimizing production processes, or training employees to improve their skills. Lower production costs mean higher profit margins, which will increase the company's net profit (Christia et al., 2021; Kusuma et al., 2021).

Return on Equity (ROE) is a measure of the net profit generated by a company compared to shareholder equity. When productivity increases, net profit also increases if all other variables remain constant. This increase in net income will increase ROE because the company generates more profits for each unit of equity invested by shareholders. Previous research shows that productivity has a positive relationship with company financial performance. For example, research by Zhang et al. (2020) found that increasing operational productivity significantly increased ROE in manufacturing companies. Another study by Dewiruna et al. (2020) shows that companies with higher productivity tend to have better overall financial performance. Based on this description, the first hypothesis is formulated.

H_1: there is a positive influence between total productivity and Return on Equity (ROE)

Total Assets Turnover (TATO) measures a company's effectiveness in using its total assets to generate income. This ratio shows how well a company utilizes its assets to generate sales. The higher the TATO, the more efficient the company is in using its assets to generate income. A high TATO shows that the company is able to generate greater income from the assets it owns. This effectiveness indicates good asset management and effective operational strategies. Companies with high TATO tend to have smoother operational processes and can respond to market demands more quickly. Effectiveness in using assets is directly related to company profitability. When a company is able to generate more income from the same assets, this shows that the company is able to operate its assets optimally. Optimal asset operation will increase the company's revenue and net profit, which ultimately increases ROE (Dahlia, 2017; Hendawati, 2017; Pansing et al., 2024; Rachmat, 2023).

Return on Equity (ROE) is a key indicator for investors to assess how effectively a company generates profits from shareholder equity. A high TATO indicates that the company is able to manage its assets well to generate high sales, which contributes to increasing net profit. This increase in net income will increase ROE because the company generates more profits relative to shareholder equity. Empirical research supports the relationship between TATO and financial performance. For example, research by Sitanggang et al. (2022) found that high TATO is positively correlated with ROE in the service industry. A study by Johnson et al., (2015); Rahmawati & Latif, (2023) also shows that companies with high TATO tend to have higher ROE than companies with low TATO. Based on this study, a second hypothesis was formulated.

H_2: there is a positive influence between Total Assets Turnover (TATO) on Return on Equity (ROE).\

3. Methods

This research uses a quantitative approach with regression analysis methods to test the effect of total productivity and Total Assets Turnover (TATO) on Return on Equity (ROE) in personal care product sub-sector companies listed on the Indonesia Stock Exchange (BEI) during the 2019-2023 period. The data used in this research is secondary data obtained from the annual financial reports of personal care product sub-sector companies listed on the IDX. This data covers the 2019-2023 period. Based on information from the website www.idx.co.id, there are 8 personal care product companies listed on the Indonesia Stock Exchange (BEI) during the 2017-2023 period. From a total of 8 companies, a purposive sampling method was used to select companies that met the research criteria, namely complete financial reports and positive profits within the observation period. Using this method, 7 companies were obtained that met the criteria. Observations were carried out on these 7 companies for 5 years, resulting in 35 samples used in this research. The variables used in the research are explained as follows.

Return on Equity (ROE) is a financial performance metric that measures the profitability of a company in generating profit from its shareholders' equity. It indicates how effectively a company uses the equity investments made by its shareholders to generate earnings.

$$\text{ROE} = \frac{\text{Net Profit}}{\text{Total Shareholder Equity}}$$

Total Productivity is an efficiency ratio that measures how well a company uses its production costs to generate earnings before interest and taxes (EBIT). It reflects the company's ability to convert production inputs into profitable outputs.

$$\text{Total Productivity} = \frac{\text{EBIT}}{\text{Total Production Costs Total Productivity}}$$

Total Assets Turnover (TATO) is an efficiency ratio that measures a company's ability to use its assets to generate sales revenue. It indicates how efficiently the company's assets are being utilized to produce revenue.

$$\text{TATO} = \frac{\text{Total Sales}}{\text{Total Assets}}$$

The data used in this research were collected from annual financial reports published by companies included in the personal care product sub-sector on the IDX. The data is downloaded from the official IDX website and the official website of the company concerned. This research uses multiple linear regression analysis to test the influence of the independent variables (Total Productivity and TATO) on the dependent variable (ROE). The regression model used is as follows:

$$\text{ROE} = \alpha + \beta_1\text{PROD} + \beta_2\text{TATO} + \varepsilon$$

Where, ROE = Profitability; α = Constanta; $\beta_{1,2}$= is the regression coefficient; PROD= Total productivity; TATO= Total Assets Turnover; ε = Error term.

The data analysis steps carried out begin with data description: Outlining descriptive statistics for each variable used in the research. Classic Assumption Test: Carry out normality, heteroscedasticity, multicollinearity and autocorrelation tests to ensure that the regression model meets classical assumptions. Regression Analysis: Carry out multiple linear regression analysis to test the influence of the independent variable on the dependent variable. Interpretation of Results: Interpret the results of regression analysis to answer the research hypothesis and discuss the implications of the research findings.

4. Results and Discussion

Descriptive statistical analysis

Descriptive statistics is statistical analysis that provides a general description of the characteristics of each research variable as seen from the average (mean), maximum, minimum and standard deviation values of the total production, ROE and TATO variables.

Table 1.
Descriptive statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Total Productivity	35	0.009	3.189	0.43491	0.634653
ROE	35	0.000	1.451	0.36753	0.513441
TATO	35	0.000	4.549	1.14931	0.844606
Valid N (listwise)	35				

Based on the Table 1, the lowest total productivity value is 0.009 and the highest value is 3.189, total productivity has an average value of 0.43491 and a standard deviation value of 0.634653. High productivity ratio indicates that excellent operational efficiency and cost management, reflecting the company's ability to maximize its output from given inputs. High productivity ratio indicates that for every unit of production cost, the company generates 2.5 units of EBIT. This demonstrates excellent operational efficiency and cost management, reflecting the company's ability to maximize its output from given inputs. The lowest ROE value is 0.000, his indicates that the company is operating at a loss relative to the equity invested by shareholders. This could be a result of poor management, inefficient operations, or high levels of debt. Consistently low of ROE values might raise concerns among investors regarding the company's profitability and long-term viability. The highest value is 1.1451, the average value is 0.36753 and the standard deviation is 0.513441. A high ROE suggests strong financial performance, efficient management, and good use of equity capital. Companies with high ROE are generally attractive to investors as they demonstrate the ability to provide substantial returns on investments. The lowest TATO value is 0.000, this indicates inefficient use of assets, which could be due to underutilization, overinvestment in assets that do not contribute significantly to revenue, or other operational inefficiencies. Improving TATO would require better asset management and strategies to boost sales. The highest value is 4.549, this reflects efficient use of the company's assets to generate revenue, suggesting good asset management and a strong operational performance. The mean is 1.14931 and the standard deviation is 0.844606.

Classic assumption test

The classical assumption tests conducted in this study confirmed that the regression model used to analyze the relationship between productivity, TATO, and ROE satisfies the necessary assumptions for valid inference. The multicollinearity test showed Variance Inflation Factors (VIF) values below the threshold of 10, indicating that multicollinearity is not a concern among the independent variables. The heteroscedasticity test using the Breusch-Pagan test revealed no significant heteroscedasticity, implying that the variance of the residuals is constant across observations. The normality test of the residuals, performed using the Kolmogorov-Smirnov test, showed that the residuals are normally distributed, as the p-values were greater than 0.05. Additionally, the autocorrelation test using the Durbin-Watson statistic indicated that there is no significant autocorrelation in the residuals, with values close to 2. These results collectively suggest that the regression model meets the assumptions of linearity, independence, homoscedasticity, and normality, thus providing a reliable basis for hypothesis testing and inference.

Multiple linear regression analysis

Table 2.
Model accuracy/significance test (F Test)

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	2.064	2	1.032	4.787	.015[b]
Residual	6.899	32	.216		
Total	8.963	34			

a. Dependent variable: ROE
b. Predictors: (constant), TATO, Total Productivity

The model accuracy/significance test (F test) is used to test whether the influence of an independent variable has on a dependent variable as formulated in a regression equation model. From the table above, it is known that the F value is 4.787 and the significant value is 0.015, which means <0.05. So, it can be concluded that TATO and Total Productivity jointly influence ROE.

Table 3.
Multiple linear regression

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	Beta	Std. Error	Beta		
(Constant)	-0.035	0.152		-0.227	0.822
Total Productivity	0.241	0.127	0.298	1.898	0.067
TATO	0.259	0.095	0.425	2.709	0.011

Dependent variable: ROE

Based on Table 6, the multiple linear regression equation (Equation 1) is obtained.

$$Y = -0.035 + 0.241PROD + 0.259TATO + \varepsilon \qquad \text{(E.q. 1)}$$

The t value of total productivity is 1.898 with a significant value of 0.000 > 0.05, meaning that total productivity shows that the effect on ROE is not significant, so the research hypothesis (H_1) is rejected. Meanwhile, TATO's t value is 2.709 with a significant value of 0.000 <0.05, meaning that TATO shows a significant influence on ROE, so the research hypothesis (H_2) is accepted.

Coefficient of determination test (R^2)

The Coefficient of Determination (R^2) is used in regression analysis to measure how well a regression model predicts or explains variability in dependent data based on independent variables.

Table 4.
Coefficient of determination test (R^2)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0.480[a]	0.230	0.182	0.464327	2.219

a. Predictors: (Constant), TATO, total productivity.
b. Dependent variable: ROE

R^2 is 0.48, which means that 48 percent of the variation in Return on Equity (ROE) can be explained by variations in total productivity and Total Assets Turnover (TATO). This shows that the regression model has fairly good explanatory power, although there is 52 percent of the variation in ROE explained by other factors not included in this model. Thus, further research is recommended to explore additional factors that may influence ROE to improve the accuracy and explanatory power of the model.

Discussion

The research results show that Total Assets Turnover (TATO) has a significant influence on Return on Equity (ROE) in personal care product sub-sector companies listed on the IDX during the 2019-2023 period. This shows that the efficient use of assets in generating sales plays an important role in increasing company profitability. These results are in line with research by Zhang et al. (2020) which found that high TATO is positively correlated with ROE in the service industry. On the other hand, Total Productivity as measured by the ratio of EBIT to Total Production Costs does not show a significant influence on ROE. This may be caused by variability in production costs and operating profits which do not always reflect the company's overall efficiency in generating profits for shareholders. This finding is different from research by Zhengfei & Lansink (2006) which found that operational productivity significantly increases ROE in manufacturing companies. This difference may be due to the special characteristics of the personal care product industry, where other factors such as product innovation and marketing strategy also play an important role.

Although TATO shows a significant impact on ROE, it is important to note that efficiency in asset utilization depends not only on the ability to generate sales, but also on prudent asset management. Companies that are able to maximize the use of their assets to support operations effectively will tend to record a higher ROE (Dahlia, 2017; Hendawati, 2017; Johnson et al., 2015; Kusuma et al., 2021; Pansing et al., 2024; Rahmawati & Latif, 2023).

$R^2 = 0.48$ indicates that the regression model used is quite effective in explaining most of the variation in ROE, however 52 percent of the variation in ROE is caused by other factors not included in this model, meaning there are other variables that influence ROE that have not been included or considered in this analysis. To improve the quality of models and regression tests, future research could consider identifying and including additional relevant factors. This will help in better understanding the factors that influence ROE and improve the model's ability to predict ROE more accurately.

5. Conclusion

This research aims to analyze the effect of total productivity and Total Assets Turnover (TATO) on Return on Equity (ROE) in personal care product sub-sector companies listed on the Indonesia Stock Exchange (BEI) during the 2019-2023 period. The research results show that total productivity does not have a significant influence on ROE. This shows that operational efficiency as measured by the ratio of EBIT to Total Production Costs is not always reflected in the profitability of the company's equity. Total Assets Turnover (TATO) has a significant influence on ROE. This shows that efficiency in the use of assets to generate sales contributes positively to company profitability. This research provides important insights for company management and investors about the factors that influence equity profitability. For companies in the personal care product sub-sector, focusing on increasing the efficiency of asset use can be an effective strategy for increasing ROE. On the other hand, companies also need to consider other factors that may influence total productivity to ensure that all operational aspects contribute optimally to financial performance.

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