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## The Influence of Funding Policy, Sales Level, And Return On Equity To The Growth of Companies

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**Abstract.** The purpose of this study is to analyze what factors can affect the company's profit growth. Variables used in this study consisted of three independent variables: funding policy, sales level and return on equity. The dependent variable is the company's profit growth.

The data used in this research is quantitative data with the secondary data source. This research was conducted by using statistical analysis that is multiple linear regression, a significant test of F and t, correlation coefficient and coefficient of determination at three food & beverage subsector companies, namely PT. Indofood Sukses Makmur Tbk, PT. Mayora Indah Tbk, and PT. Ultrajaya Milk Industry & Trading Company Tbk. The data used is a financial report with a period of 10 years, from 2007-2016.

The results showed (1) Funding Policies (2) Level of Sales and (3) Return On Equity for PT. Indofood Sukses Makmur Tbk each has a positive, negative and negative influence on Corporate Growth Profit, for PT. Mayora Indah Tbk all three have a negative influence on the Company's Profit Growth. However, only Return On Equity has a significant effect. While for PT. Ultrajaya Milk Industry & Trading Company Tbk each positively, positively and negatively influence the Company's Profit Growth.

**Keywords:** Funding Policy (Financial Structure), Sales Level (Sales Growth) and return on equity (ROE)

### 3. INTRODUCTION

Maximizing wealth and profits for company owners is the goal of company management. To get profit, management must make their business and performance good, efficient and effective. Profit or profit is obtained from the difference in sales results, namely income that is greater than the cost used. However, it is not always the profits earned, the company may suffer losses. Therefore, it is necessary to keep the company in production, so as to produce an optimal profit. Every company definitely wants an increase in profits. The increase or growth in profit strongly supports the development of the company, because the profit can be invested to support the company's operations, which is commonly referred to as profit on hold.

The need for funds or capital, whether it is own capital or that comes from debt is needed by developing companies. In determining which funding is most suitable for the needs of the company, a funding decision needs to be made, namely by making several choices among several possible funding that will be used by the company, but first, the company must establish a funding policy. Funding decision making is very important because it determines the success or failure of the business.

Sales activities are routine activities of the company. The company's sales results are unstable, tend to rise / fall, because there are factors that influence, such as defeat in competition, products that are less desirable by consumers, etc., all of which will have an impact on the company, because the company's capital can be sourced from outside (external) or from the internal company itself.

Creating profit for the company is very important. Company owners or shareholders really expect company management to work according to the target to be achieved. To assess management's ability to create profits, it is usually calculated using the Return On Equity ratio. ROE is a profitability ratio based on

the shareholders' perspective on management. In practice, shareholders can terminate the employment relationship with the board of directors or management and appoint a new board of directors if the targets set are not met.

#### **4. LITERATURE REVIEW**

##### **Profit Growth**

Profit is the difference between income and profit after deducting expenses and losses. Profit is one measure of operating activity and is calculated based on the basis of accrual accounting (K.R. Subramanyam & John J. Wild 2010: 4).

According to Gunawan and Wahyuni (2013: 64), the measure that is often used to determine the success or failure of company management is the profits earned by the company. Profit growth is the development of profits that occur in a company in a certain period of time whether experiencing a profit increase or vice versa has decreased (David H.M Hasibuan 2009: 36).

##### **Budgeting Policy**

According to James E Anderson as quoted by M. Irfan Islamy (2009: 17). the policy is "a purposive course of action followed by an actor or set of actors in dealing with a problem or matter of concern". (A series of actions that have specific objectives followed and carried out by an actor or group of actors to solve a particular problem.

According to Ross, Westerfield and Jordan (2009: 295) Funding is part of financial terms. Generally, this term refers to long-term funding. Corporate funding activities aim to support the profit creation process. Funds are used as working capital for the operational activities of the company. The source of funds used can be obtained from internal funding sources or external funding sources.

##### **Level of Sales**

According to Kotler (2006: 457), sales are a process in which the purchase needs and sales needs are met through the interchange of information and interests.

##### **Return On Equity**

Return on Equity is one of the ratios in measuring profitability. The profitability ratio is the ratio to assess the company's ability to seek profits, this ratio also provides a measure of the level of management effectiveness of a company.

#### **RESEARCH METHOD**

Research methods can be interpreted as a scientific way to obtain valid data with the aim of being found, developed, and proven, a certain knowledge so that in turn it can be used to meet, solve, and anticipate problems (Sugiyono, 2010: 5).

##### **Population and Sample**

According to Sugiyono (2010: 80) population is "The area of generalization which consists of objects or subjects that have the quality of the definition set by researchers to study and then draw conclusions". The population in this study are companies in Indonesia that have gone public listed on the Indonesia Stock Exchange.

According to Sugiyono (2010: 80) the sample is "part of the amount and characteristics of the income".

The sample criteria used in this study are:

1. A consumer goods company registered and active on the Indonesia Stock Exchange, for at least 10 years.
2. Having complete financial data needed.

##### **Operasional Variabel**

Operational research variables are explanations of each variable used in the study of the indicators that shape it.

##### **Profit Growth**

To calculate profit growth, the following formula can be used:

$$\text{Profit growth} = \frac{\text{Net profit}_t - \text{net profit}_{t-1}}{\text{Net Profit}_{t-1}} \times 100\%$$

### Budgeting Policy

The indicators used in the funding policy are:

$$\text{Financial Structure} = \frac{CL}{(LTD + Equity)}$$

### Sales Level

The sales growth rate is calculated by the following formula (Weston and Copeland 2008: 240):

$$\text{Sales Growth} = \frac{\text{Sales}_t - \text{Sales}_{t-1}}{\text{Sales}_{t-1}} \times 100\%$$

### Data Analysis Method

#### Multiple Linear Regression

Multiple linear regression is an analysis that is used with the intention of predicting how the state (ups and downs) of the dependent variable (criterion), if two or more independent variables as predictor factors are manipulated (raised by value) (Sugiono 2010: 277), with the following formula :

$$Y = a + b_1 X_1 + b_2 X_2 + b_3 X_3 + E$$

Y: Profit Growth

A: Constant coefficient

$\beta$  (1-3) : Regression Coefficient

(Financial Structure, Sales Growth, ROE)

E: Error

### Correlation Analysis

Correlation analysis is used to see the weak strength between independent variables with dependent variables. Following is the formula of the correlation coefficient:

$$r = \frac{n \sum xy - (\sum x)(\sum y)}{\sqrt{\{n \sum x^2 - (\sum x)^2\} \{n \sum y^2 - (\sum y)^2\}}}$$

Remarks :

r = correlation coefficient

n = Number of samples (lots of data in 10 years)

x = independent variable

(Funding policy, level of sales, and Return on Equity)

y = dependent variable (profit growth)

### Determinant Coefficient Analysis

According to Ghozali (2011: 97) "the coefficient of determination essentially measures how far the ability of the model to explain the variation of the independent variables'. The following is the formula of the coefficient of determination:

$$KD = r^2 \times 100\%$$

Remarks:

KD = Determinant Coefficient

$r^2$  = Squares of Correlation Coefficients

### T-Test

T-test basically shows "how far the influence of an explanatory/independent variable individually in explaining the variation of independent variables (Ghozali 2011: 98). The hypothesis is formulated as follows:

$$t_{hit} = \frac{r \sqrt{(n-2)}}{\sqrt{1-r^2}}$$

Remarks:

R = correlation coefficient

n = number of respondents (sample members)

Statistical research 1

H0:  $\beta_0 = 0$ , Funding Policy has no effect on profit growth.

H1:  $\beta_1 \neq 0$ , Funding policy affects profit growth.

Statistical research 2

H0:  $\beta_0 = 0$ , the level of sales does not affect profit growth.

H1:  $\beta_1 \neq 0$ , the level of sales influences profit growth.

Statistical research 3

H0:  $\beta_0 = 0$ , Return on equity has no effect on profit growth.

H1:  $\beta_1 \neq 0$ , Return on equity influences earnings growth.

Statistics Research 4

H0:  $\beta_0 = 0$ , Funding Policy, Level of sales and Return on equity have no effect on profit growth.

H1:  $\beta_1 \neq 0$ , Funding Policy, Level of sales and Return on equity affect the profit growth.

#### F-Test

According to Ghozali (2011: 98): "F statistic test basically shows whether all independent or free variables included in the model have a joint influence on the dependent/dependent variable". The F Test formula is as follows:

$$F = \frac{R^2/(k-1)}{(1-R)^2/(n-k)}$$

Remark:

R = correlation coefficient

k = number of independent variable

n = number of sample population

Research Hypothesis:

H<sub>0</sub> :  $\beta_1 = \beta_2 = \beta_3 = 0$ , Funding Policy (X<sub>1</sub>), Level of Sales (X<sub>2</sub>), *Return On Equity* (X<sub>3</sub>) not influenced by profit growth (Y)

H<sub>1</sub> :  $\beta_1 = \beta_2 = \beta_3 \neq 0$ , Funding policy (X<sub>1</sub>), Sales level (X<sub>2</sub>), *Return On Equity* (X<sub>3</sub>) influences the profit growth (Y).

### 3. RESULTS AND DISCUSSION

#### PT. Indofood Sukses Makmur Tbk.

Based on the results of the study, it can be seen that the funding policy variable has no significant positive effect on earnings growth. The cause or reason for the insignificance of the funding policy variable (financial structure) on profit growth is the lack of precise composition or use in terms of liabilities namely current debt, long-term debt and equity used to meet funding needs, management has not been able to determine to fund for the company. Therefore, the funding policy has not been able to provide changes to the company's profit growth.

Meanwhile, it is known that the level of sales variable has a negative influence not significant on profit growth. The reason is the lack of management performance in maintaining the stability of the number of

sales so as not to decline and try to reduce the costs and operating expenses incurred by the company. Therefore, the level of sales has not been able to influence the company's profit growth.

It is known that the variable return on equity has no significant negative effect on profit growth. The absence of significance between the effect of return on equity on company profit growth indicates that the lack of business and management performance in profit creation. Therefore, return on equity has not been able to influence the company's profit growth.

#### **PT. Mayora Indah Tbk**

Based on the results of the study it can be seen that the funding policy variables have a negative and insignificant effect on earnings growth. The cause or reason for the insignificance of funding policy variables (financial structure) on profit growth is due to poor utilization and use of liabilities components, such as short-term debt, long-term debt, and equity, so as not to have an influence on profit growth.

For sales level variables have a negative influence not significant on earnings growth. The reason is that the company's sales activity has not been stable, there is still an increase and decrease that occurs so that it has not been able to influence profit growth.

It is known that the variable return on equity has a negative but significant influence on the profit growth of PT. Mayora Indah Tbk. The significance of the effect between the effect of return on equity on company profit growth indicates that management has worked well and effectively, so as to create efficiency in the company in obtaining profits or profits. Therefore, return on equity can affect the company's profit growth.

#### **Ultrajaya Milk Industry & Trading Company Tbk.**

It is known that the funding policy variable has a positive and not significant effect on profit growth. Just as in the previous two companies the cause or reason for insignificance is the lack of good use and management of components in terms of liabilities such as short-term debt, long-term debt, and equity so as not to have an influence on profit growth.

Based on the results of the study it can be seen that the level of sales variable has a positive and not significant effect on earnings growth. The reason is that the company has not been able to manage costs, expenses, and expenses well and is not trying enough in marketing and promotion of its products. Therefore there is no effect on profit growth.

Meanwhile, it is known that the variable return on equity has a negative effect not significant on profit growth, this indicates a lack of business and management performance in profit creation. So that the company has not been able to maximize profitability. Therefore, return on equity has not been able to influence the company's profit growth.

## **4. CONCLUSION AND SUGGESTIONS**

### **CONCLUSION**

Based on the results of the research and discussion above, it can be concluded:

1. PT. Indofood Sukses Makmur Tbk
  - a. Funding Policy variable (X1) partially does not have a significant effect on the company's Profit Growth (Y).
  - b. The Sales Level variable (X2) partially does not have a significant effect on the company's Profit Growth (Y).
  - c. Variable Turnover return on equity does not have a significant effect on the company's Profit Growth (Y).
  - d. Funding Policy Variables (X1), Sales Level (X2), and return on equity (X3) simultaneously have insignificant influence on the company's Profit Growth (Y).
2. PT. Mayora Indah Tbk
  - e. Funding Policy variable (X1) partially does not have a significant effect on the company's Profit Growth (Y).
  - f. The Sales Level variable (X2) partially does not have a significant effect on the company's Profit Growth (Y).
  - g. Variable Turnover of return on equity partially has a significant effect on the company's Profit Growth (Y).
  - h. Funding Policy Variables (X1), Sales Level (X2), and return on equity (X3) simultaneously have insignificant influence on the company's Profit Growth (Y).
  - i. PT. Ultrajaya Milk Industry & Trading Company Tbk

- j. Funding Policy variable (X1) partially does not have a significant effect on the company's Profit Growth (Y).
- k. The Sales Level variable (X2) partially does not have a significant effect on the company's Profit Growth (Y).
- l. Variable Turnover return on equity does not have a significant effect on the company's Profit Growth (Y).
- m. Funding Policy Variables (X1), Sales Level (X2), and return on equity (X3) simultaneously have insignificant influence on the company's Profit Growth (Y).

#### SUGGESTION

The suggestions that can be given in this study are:

1. For research that will develop the results of this study, it is recommended to add other variables with different research objects.

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