The Sustainable Growth Rate and The Firm Performance: Case Study of Issuer at Indonesia Stock Exchange

Sweetly Mumu[*]
Sherly Susanto[**]
Paskanova Gainau[***]

Keywords:

Sustainable Growth Rate;
Financial Leverage;
Liquidity;
Asset Efficiency;

Abstract

This research had a purpose to give an empirical evidence about the effect of financial leverage, liquidity, and asset efficiency to the Sustainibility Growth Rate. The research population in this research was all the issuers registered at Indonesia Stock Exchange from 2010 – 2017 which consisted of 422 firms. Sampling technique used in this research was purposive sampling based on the chosen criteria from 268 firms. The analysis data used here was multiple linear regression method.

The research result showed that financial leverage, liquidity, and asset efficiency had an effect to the Sustainibility Growth Rate. This research also found that a high leverage and firm size would reduce the value of Sustainibility Growth Rate, so that the firm should pay attention to the funding balance and its size.

Author correspondence:

Sweetly Mumu,
STIE Eben Haezar Manado
Jl. Diponegoro, Manado, Sulawesi Utara
Email: sweetly_mumu@yahoo.com

1. Introduction

The business continuity is one of the firm purposes to get a profit. In the middle of business competition which is always increasing, there are so many newcomer firms coming up easily, one of the basic questions is how long and how the way for them to survive. Problems faced by the firms to survive were geting more complicated since the financial crisis happened in the United States in the end of 2008 spread all over the world included in Indonesia. Several big corporations got some financial difficulty and had to do a thrift by cutting the labor's budget even they had to do a massive Termination of Employment Relationship .

The financial problem of the firms consists of the source of the funds and their use. The duty of the finance manager to make a decision to solve the problems so that the firm can

survive and mantain the chance to keep growing and being better. The growth management needs an appropriate balance between the purpose and the sale of the firm. Many firms get a bankruptcy because of the high growth which is not balanced with an appropriate source of funds. As an effort to solve the problems, the firms should decide a consistent growth rate with the firm reality and finance market even apply it in the budget planning(Horne & Jr, 2005)

A maximum rate of the firm can increase the sale and its income without spending the resources can be defined as Sustainibility Growth Rate (SGR) (Arellano & Higgins, 2007).A sustainable growth will give a significant effect to the economy growth. To keep being consistent in the capital market, go public firms should give a better operational hour, reduce the unstable finance system and be able to survive at capital market crisis which often comes up in the economy cycle(Kumar, 2018).

When the situation of the economy and market are getting better, a low growth firm is more interested in publishing a new debt than equity, meanwhile a high growth firm tends to publish an equity. This found shows that the firm invests and looks for a rational budgeting with a proper way toward the growth rate (Wu & Yeung, 2012).In the economy circumstance and the competition which change quickly, reaching the sustainability growth rate is not an easy task. For example, the customers attitude that change during the last decade in which they are more discriminative so that force the firm to get their interest by adding more value with an innovative offering.

The thing is also applicable to the other competition in almost all the industrial sectors, therefore the firm must identify the competitors and make a strategic plan to create a sustainability growth. If the firm can maintain it, then the firm can maintain a long-term advantage and keep the financial health (Kumar, 2018). The sustainability growth rate will get the investors's interest in the capital market. This thing is measured by the firm performance(Rahim, 2017). A good performance firm is the firm which can manage and increase the financial condition.

Reaching the sustainability growth rate is the main attention of every firm manager. But in the economy and politic circumstance as well as in the competition which change quickly, reaching the sustainability growth rate is not an easy thing, especially in the global circumstance that is very complex (Amouzesh, Moenifar, & Mousavi, 2011).The problem of sustainability growth rate gets a more comprehensive attention by the managers and investors when they handle their investment and business.

Nowadays, the firms registered at Indonesia Stock Exchange have applied a strategic plan comprehesively in their effort to get a higher profit. There are at least 128 go public firms in the non finance and non State Owned Enterprise (BUMN) sectors getting a positive growth in the last five years during 2012 – 2016. Those 128 issuers have grown positively in the middle of global and national fluctuating situation (Research result of Biro Riset Infobank). They succeed to get the fastest growth in the last five years with two digits profit growth. They also succeed to get a positive profit in the middle of economy lethargy, micro pessimism, and disruptive business (Director of Biro Riset Infobank, 2018).

To increase the sustainability growth rate, the firm will reduce the dividend payment to the stakeholders when the real growth is higher than the sustainability growth. Then, that things will effect the stock price. Like the hypothesis, the dividend policy effect will make a stock price changing, either it will grow higher or lower. According to the agency cost, a firm which invests in asset can increase the sustainability growth rate in the future and can face the difficulty in borrowing the asset (Brigham & Houston, 2005).

The sustainability growth rate of any firms is decided by these four following factors: 1) Profit Margin. The enchancement of profit margin increases the firm ability to produce the

fund internally and increase the sustainability growth rate. 2) Net Asset Turnover. The enchancement of net asset turnover of a firm increases the produced sales, this thing reduces the need of the firm about the asset when the sales are growing, so that it can increase the sustainability growth rate. 3) Financial Policy. The enchancement of debt ratio increases the leverage of a firm finance, and because this thing makes the additional debt budget available, therefore it can increase the sustainability growth rate. 4) Dividend Policy. The decrease of the net profit percentage after the taxes are paid as the dividend increases the retention ratio, and at its turn increases the equity produced internally and therefore increases the sustainability growth rate(Amouzesh et al., 2011).

Based on the empirical researches about the sustainability growth rate and its relationship with the financial leverage such as (Bagus, I Gusti Pratama & Wiksuana, 2016; Efendi & Wibowo, 2017; Rahim, 2017)finds that Debt to Equity Ratio (DER) has a significant positive effect. A different result is showed by(Mardiyati, Umi dan Ahmad, 2012; Haryanto, 2014; Utami, ., Muthia, & Thamrin, 2018; Arzu, 2018)finds that DER no significant effect to the the sustainability growth rate.

The Relationship test of liquiditywith indicator Current Ratio (CR) by(Amouzesh et al., 2011; Rahim, 2017; Arzu, 2018)shows CR has no significant effectto the SGR, but the different results are shown by(Hartono & Utami, 2016)that CR has a significant effect on SGR, with the object of research being the IDX 30 index on the Indonesia Stock Exchange.

The relationship test of efficiency asset and its relationship with the sustainability growth rate done by(Rahim, 2017), menunjukan bahwa Total Asset Turnover berpengaruh positif terhadap SGR, shows that total asset turnover has a positive effect to the sustainability growth rate, then the research measuring the firm size indicator relationship to the sustainability growth rate done by(Nuswandari, 2009; Rahim, 2017; Platt, Platt, & Chen, 1995;Sumarna, 2017)shows that the firm size has a significant effect, meanwhile the different result found by(Wirajaya, 2013)in which the firm size has no significant effect to the manufacture firms at Indonesia Stock Exchange.

The objective of this research gives an empirical proof about the significant effect of the firm performance with financial leverage, liquidity, asset efficiency and firm size indicator as a variable control to the sustainability growth rate at registered firms at the Indonesia Stock Exchange. The importance of this research is because the previous researches still give a different result about the relationship of the liquidity and efficiency asset to the sustainability growth rate and the researcher uses a firm sampling of any available sectors at the Indonesia Stock Exchange.

The researcher hopes that this research can be useful for the go public firms in increasing a sustainable practice growth consistently.

2. Research Method

This research used a quantitative method to test the effect or the relationship among the financial leverage, liquidity, and efficiency asset to the sustainability growth rate.The population of this research was all the issuers registered at the Indonesia Stock Exchange from 2010 – 2017 which consisted of 422 firms. The sampling technique used was a purposive sampling with the firm selection criteria reporting the financial report completely during the research period, reporting the net income, and dividend pay out ratio or the retention rate during the research period. Based on the sampling criteria, the resarcher got 268 firms which was appropriate with the criteria in this research.

The instrument analysis used was multiple linear regression and to increase the better research explanation, the researcher added a variable control. The followings were the regression model to test the hypothesis:

$SGR = \alpha + \beta_1 DER + \beta_2 CR + \beta_3 TA + \beta_4 LNA + e$

Table 1. Operational Definition and Variable Measurement

Type	Variable	Operational Definition	Indicator	Measurment	Source
Dependent Variable	Sustainbility Growth Rate (Y)	A realistic calculation to predict the firm growth rate with a hope that there is no financial changing	SGR	SGR = ROE x (1 – Dividend Payment Ratio)	(Kumar, 2018)
Independent Variable	Financial Leverage (X₁) Debt Equity Ratio	The comparation between the debt with the firm equity	DER	DER = Total Liablities / Total Equity	(Haryanto, 2014)
	Liquidity (X₂) Current Ratio	Current Ratio is often used as an indicator to measure the performance of companies in paying short term financial obligations at maturity using available liquid asset	CR	CR = Current Asset / Current Liabilities	(Hartono & Utami, 2016)
	Asset Efficiency (X₃) Total Asset Turnover	The turnover asset ratio used to see how far the ability of the firm to create a sale by using all owned assets	TA	TA = Sales / Total Asset	(Rahim, 2017)
Control Variable	Firm Size (X₄)	The total assets reflection owned by the firm. The bigger the firm size, the bigger the owned assets of the firm and so is the operational fund	LNA	Firm Size = Natural Log of Asset	(Rahim, 2017)

3. Results and Analysis

Table 2. Descriptive Statistic

Variabel	N	Minimum	Maximum	Mean	Standar Deviation	Variance
SGR	2.167	-319,10	283,07	0,569	81,39	6.622,39
DER	2.167	0,28	15,70	0,579	0,65	0,42
CR	2.167	-3,64	389,00	4,006	16,83	283,09
TA	2.167	0,00	6,95	0,622	0,61	0,38
Firm Size	2.167	-3,92	389	4,620	16,68	278,22

The table 2 shows a descriptive statistic about the firm performance result including the minimum score, maximum score, mean, deviation standard, and variance. The observed data total are 2.167 representing the public firm data with the sustainability growth rate, debt ratio, current ratio, total asset turnover and firm size. The result of the sustainability growth rate shows that minimum score to the negative rate (-319,20), it shows that the issuers at indonesia stock exchange tend to have a business problem, but the maximum score 283,07 shows that the go public firm has a significant sustainability growth rate.

Financial leverage (DER), liquiditas (CR), and an efficiency asset (TA) shows that the minimum debt ratio is 0,28, and its maximum score is 15.70. Meanwhile the average score is 0,579 and the deviation standard is 0,65. It means the high score shows that the firm has a high debt in running its operational activity, and low score leverage indicates that the firm has a low debt. The minimum score for current ratio (CR) is -3,64, and the maximum score is 389,00. The equity ratio of a firm is 283,09, it indicates a good information for the stakeholders because of the proportional total asset defrayed by them than the creditors. Then the minimum score (0,00) is for the total asset turnover (TA) showing that the firm does an efficiency very well, and the maximum score 6.95 shows that all the firms use the assets efficiently to produce the sales according to the negative score below the firm growth result.

Furthermore, the indication of firm size (LNA) shows that the minimum level is a negative score (-3,92), and the maximum score is 389. It proves that the size of go public firms in Indonesia has a big enough asset.

Tabel 3. Analisis Regresi

Sebelum Menambahkan Variabel Kontrol					Setelah Menambahkan Variabel Kontrol				
Model	Coeff	t-Stat	sig	Con.	Model	Coeff	t-Stat	sig	Con.
Constant	0.537	27.630	0.000		Constant	0.554	27.722	0.000	
DR	-0.11	-4.431	0.000	Accepted	DR	-0.10	-4.300	0.000	Accepted
CR	0.11	4.420	0.000	Accepted	CR	0.010	-4.288	0.000	Accepted
AT	0.90	4.190	0.000	Accepted	AT	0.083	3.868	0.000	Accepted
					Firm Size	-0.003	-3.514	0.000	Accepted
R-Square				0.016	R-Square				0.021
Adjusted R Square				0.014	Adjusted R Square				0.020
F-Stat					F-Stat				
Sig F-Stat				11.620	Sig F-Stat				11.848
Durbin-Watson				0.000	Durbin-Watson				0.000
				1.947					1.949

Before doing a hyphotesis test, we did a classic assumption test consisted of normality, multicollinearity, autocorrelation, and heteroscedasticity test. For the normality test, we used normal probability plot(figure 1) showing that the data contributed normally and followed diagonal line pattern.
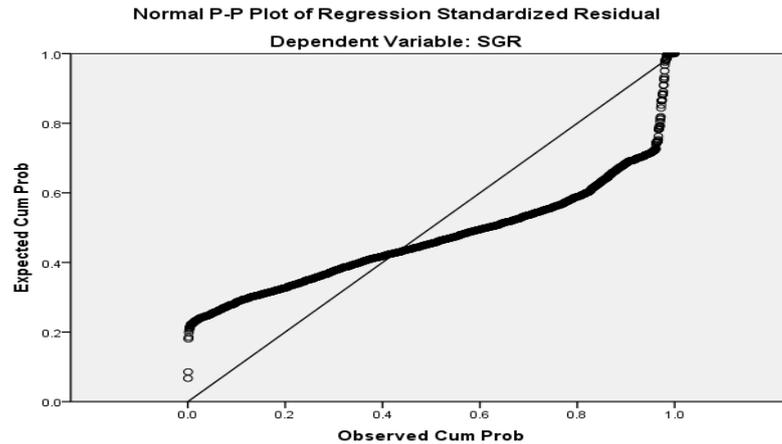
Figure 1. Normal Probability Plot

Multicollinearity test shows that there is no variable effect in the research, with the above correlation score 0.90 which means there is no multicollinearity in the test. Next, Durbin Watson score is 1,949, then it can be concluded that there is no autocorrelation because Durbin Watson score is at 1,50 – 2,46 range. And the last heteroscedasticity test (figure 2) showing that there is no certain pattern formation.
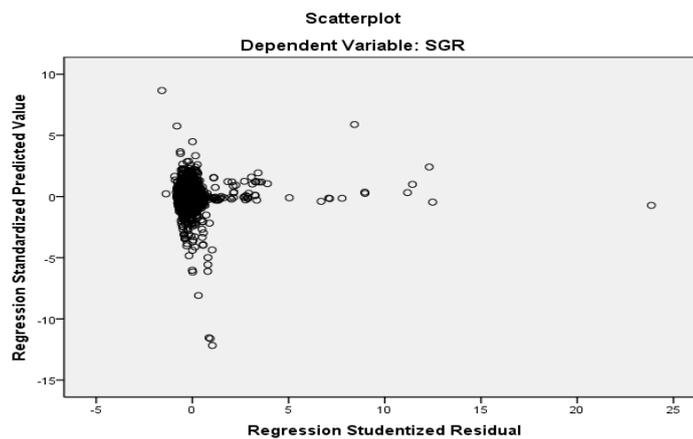

Figure 2. Scatterplot

After doing a classic assumption test, the data could be used for the hyphotesis test. The test was done in two steps without using variable control, and using variable control (The conclusion of hyphotesis test summary was given at table 3). The hyphotesis test result without using variable control shows that the financial leverage (DER) has a significant negative effect, meanwhile the liquidity variable (CR), and asset variable efficiency (TA) has a significant positive effect with each independent variable significance score is 0,000 with the R square 0,016. For the second test we added variable control in the regression. The test produces leverage financial variable (DER) still has a significant negative effect to the Sustainibility Growth Rate, liquidity variable (CR) and asset efficiency variable (TA) still has a significant positive effect to the SGR and variabel Firm Size (LNA) as a variable control has a significant negative effect to the SGR. By adding variable control, it does not show many significant change to the determinant coefficient (R Square) which is just 0,021. Based on that things, then there are still so many other factors which cancontribute to the Sustainability Growth Rate of the issuers at Indonesia Stock Exchange such as inflation rate, interest rate, and tax.

3.1 The Effect of Financial Leverage to the SGR

The research result shows that financial leverage has a negative and significant effect to the SGR (Ha accepted). Coefficient score DER -0,10 which means DER has a negative effect to the SGR. This thing means that the bigger financial leverage, then the SGR will get a degression.Financial leverage can increase the firm finance performance, but if the debt exceeds the equity, then the firm risk from the liquidity side will be higher.This result supports the research fromEfendi & Wibowo (2017)in which DER has a significant and negative effect to the DER, but it does not support the research from (Mardiyati, Umi dan Ahmad, 2012; Haryanto, 2014; Utami, ., Muthia, & Thamrin, 2018; Arzu, 2018)saying that DER has no significant effect to the SGR.

3.2 The Liquidity Effect to the SGR

The result of this research showes that liquidity has a significant positive effect to the SGR with the coefficient score 0,010. This result supports the research done by (Hartono & Utami, 2016), namun sangat kontras dengan hasil penelitian dari (Amouzesh et al., 2011; Rahim, 2017; Arzu, 2018)in which current ratio has no effect to the SGR. Liquidity is an ability of the firm to pay off the short-term debt. Liquidity problem do not lead to the bankcruptcy, but if the firm can not fulfill the duty, then the sustainability of the firm effort become questionable. This thing means that the bigger the firm liquidity, then it will have a positive effect to the SGR.

3.3 The Effect of Eficiency Asset to the SGR

The research shows efficiency asset has a positive effect to the SGR with the coefficient score 0.083, so that the higher the efficiency asset, then it will increase the SGR. This result supports the research from(Nuswandari, 2009; Rahim, 2017; Platt, Platt, & Chen, 1995)dan tidak mendukung penelitian dariWirajaya (2013).This result shows that the firm registered at the Indonesia Stock Exchange is effective in using the asset to increase the income. The firm which is able to change the asset faster to become cash or sale, the better the performance will be.

3.4 The Effect of Firm Size to the SGR

The result shows that the firm size has a significant negative effect to the SGR with the coefficient score -0.003, so that every increase of the firm size will decrease the value of the SGR. This result suppports the research from(Sumarna, 2017). A big firm shows that the firm is getting a good development and growth so that increase the value of the firm. The size of the firm will decide the trust from the investors(Haryanto, 2014), but the bigger the size of a firm indicates then the bigger the fund and the invest needed to the active payment. This thing signs that it is not sure a firm with a big asset can produce a big profit too.

4. Conclusion

Financial leverage had a significant negative effect to the Sustainibility Growth Rate (SGR). So that the higher the leverage, then it would decrease the value of the SGR or the low leverage rate would increase the value of the SGR. Financial leverage could increase the financial performance of a firm, but if the debt total exceeded the equity then the firm risk from the liquidity side would be higher. Liquidity had a significant positive effect to the SGR. The bigger the firm liquidity, then it would increase the SGR value of a firm. Asset efficiency to the SGR also had a positive effect to the SGR, therefore it proved that a firm registered at the Indonesia Stock Exchange was effective in using the asset to get income. But from the firm size test result as a variable control showed a significant negative effect which described the bigger the size of a firm signed that the bigger the invest and the fund needed for the active payment, thus the bigger the firm size, it would decrease the SGR value to the go public firm at Indonesia Stock Exchange.

REFERENCES

[1] Amouzesh, N., Moenifar, Z., & Mousavi, Z. (2011). Sustainable Growth Rate and Firm Performance: Evidence From Iran Stock Exchange. *International Journal of Business and Social Science*, *2*(23), 249–255.

[2] Arellano, F., & Higgins, D. (2007). Susg & short run_ArellanoHiggins.pdf. *Financial Decisions, Winter 2007, Article 3 The*, *3 The*, 1–9.

[3] Ary Wirajaya, A. (2013). Pengaruh Struktur Modal, Profitabilitas Dan Ukuran Perusahaan Pada Nilai Perusahaan. *E-Jurnal Akuntansi*, *4*(2), 358–372.

[4] Arzu, Ş. (2018). Financial Sustainable Growth Rate and Financial Ratios : A Research on Borsa İstanbul Manufacturing Firms. *Journal of Business Research Turk*, *10*(1), 172–197. Retrieved from www.isarder.org

[5] Bagus, I Gusti Pratama, A., & Wiksuana, I. G. B. (2016). 17498-1-35995-1-10-20160215. *E-Jurnal Manajemen Unud*, *5*(2), 1338–1367.

[6] Brigham, & Houston. (2005). *Fundamentals Of Financial Management*.

[7] Hartono, G. C., & Utami, S. R. (2016). The Comparison of Sustainable Growth Rate, Firm'S Performance and Value Among the Firms in Sri Kehati Index and Idx30 Index in Indonesia Stock Exchange. *International Journal of Advanced Research in Management and Social Sciences*, *5*(5), 68–81. Retrieved from http://www.garph.co.uk/IJARMSS/May2016/7.pdf

[8] Haryanto, S. (2014). Identifikasi Ekspektasi Investor Melalui Kebijakan Struktur Modal, Profitabilitas, Ukuran Perusahaan Dan Gcpi. *Jurnal Dinamika Manajemen*, *5*(2), 183–199. https://doi.org/10.15294/jdm.v5i2.3660

[9] Horne, J. C. Van, & Jr, J. M. W. (2005). *Instructor ' s Manual Fundamentals of Financial Management twelfth edition* (twelfth ed). Pearson Education Limited. Retrieved from www.pearsoned.co.uk

[10] Kumar, A. (2018). Impact of Financial innov ations on Sustainable Growth Rate : A study on Nifty 50 listed Banks in India. *International Journal of Management, IT & Engineering Vol.*, *8*(9), 196–210. Retrieved from http://www.ijmra.us

[11] Mardiyati, Umi dan Ahmad, G. N. (2012). Pengaruh Kebijakan Dividen, Kebijakan Hutang Dan Profitabilitas Terhadap Nilai Perusahaan Manufaktur Yang Terdaftar Di Bursa Efek Indonesia (Bei) Periode 2005-2010. *Jurnal Riset Manajemen Sains Indonesia (JRMSI)*, *Vol 3*(Nomor 1), Hal 1-17.

[12] Nuswandari, C. (2009). Pengaruh Corporate Governance Perception Index Terhadap Kinerja Perusahaan Pada Perusahaan Yang Terdaftar di Bursa Efek Jakarta. *Journal Bisnis Dan Ekonomi*, *16*(2), 70–84.

[13] Platt, H. D., Platt, M. B., & Chen, G. (1995). Sustainable growth rate of firms in financial distress. *Journal of Economics and Finance*, *19*(2), 147–151. https://doi.org/10.1007/BF02920515

[14] Rahim, N. (2017). Sustainable Growth Rate and Firm Performance: a Case Study in Malaysia. *International Journal of Management, Innovation & Entrepreneurial Research*, *3*(2), 48. https://doi.org/10.18510/ijmier.2017.321

[15] Sumarna, A. D. (2017). Faktor-Faktor Yang Mempengaruhi Pertumbuhan Perusahaan. *Jurnal Benefita*, *1*(2), 1–7. https://doi.org/10.22216/jbe.v1i2.721

[16] Utami, D., . S., Muthia, F., & Husni Thamrin, K. M. (2018). Sustainable Growth: Grow and Broke Empirical Study on Manufacturing Sector Companies Listed on the Indonesia Stock Exchange. *KnE Social Sciences*, *3*(10), 820–834. https://doi.org/10.18502/kss.v3i10.3427

[17] Wianta Efendi, A. F., & Adi Wibowo, S. S. (2017). Pengaruh Debt To Equity Ratio (Der) Dan Debt To Asset Ratio (Dar) Terhadap Kinerja Perusahaan Di Sektor Keuangan Yang

Terdaftar Di Bursa Efek Indonesia. *Journal of Applied Managerial Accounting*, *1*(2), 157–163. https://doi.org/10.30871/jama.v1i2.503

[18]   Wu, X., & Yeung, C. K. A. (2012). Firm Growth Type and Capital Structure. *Journal of Banking and Finance*, (7008015), 1–52.