



## QUALITY OF INVESTMENT DECISION, BUSINESS RISK, EFFICIENCY AND PROFIT GROWTH

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### Abstract

Earnings growth is an indicator that shows the company's capability to increase net profit in a certain period compared to the previous period. This study aims to provide empirical evidence regarding the role of investment decision quality, business risk, and efficiency on corporate earnings growth. The research population includes all companies in the property, real estate and building construction sectors. The research sample was 50 companies which were obtained through purposive sampling method. This research uses linear regression analysis method. The results provide evidence that the quality of investment decisions, business risk and efficiency have a significant role in the earnings growth of the company in the property, real estate and building construction sectors.

**Keywords:** investment decision quality; business risk; efficiency; earnings growth

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### INTRODUCTION

Financial performance is a fundamental aspect for the survival of the company. Financial performance can be represented through the company's profit growth. Profit growth is an indicator that shows the company's capability to increase net profit in a certain period compared to the previous period (Napitupulu, 2019). Profit growth analysis is very important for stakeholders, both company management, investors, creditors and the government. Companies with positive profit growth show greater asset ownership, thus providing greater opportunities for companies to create profits (Napitupulu, 2019). Siregar & Batubara (2017) states that profit maximization is the company's goal. Profit growth can be used to project the company's performance as well as an assessment of the level of success of company management in terms of management's ability to project company opportunities both in the short and long term.

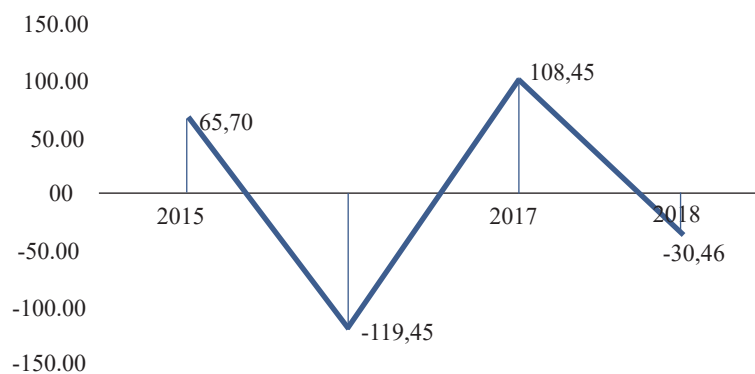


Figure 1. Profit Growth in the Property, Real Estate and Construction Sector

The phenomenon of profit growth, especially in the property, real estate and building construction sectors in 2015-2018 can be explained in Figure 1. In 2015-2018, the profit growth rate was very volatile. In 2015, the profit growth rate in the property, real estate and building construction sectors was recorded at 65.70 percent, but in 2016 the profit growth rate decreased very significantly to -119.45 percent. In 2017, the profit growth rate recorded a positive value of 108.45 percent and was the highest growth rate during the 2015-2018 period. In 2018, the rate of growth again recorded a negative value of -30.46. The high level of fluctuation in the data growth rate in the property, real estate and building construction sectors is the main reason that further studies are needed on the factors that can affect profit growth.

The profit level represents the management's ability to operate the company's resources Siregar & Coal (2017), one of which is through the company's investment decisions. The quality of investment decisions reflects the company's performance and ability to generate profits. According to Taouab & Issor (2019), financial performance is a set of indicators that provide information on the company's success in achieving financial goals. The higher the value of investment decision quality, it represents that the financial decisions taken by the company make a significant contribution to the achievement of the company's financial goals. The high quality of investment decisions represents several competitive advantages that allow the creation of profits and higher returns to investors (Bunea et al. 2019). On the other hand, the lower quality value of investment decisions represents the lower the company's ability to generate profits.

Profit growth can also be influenced by the company's level of business risk. Business risk, especially financial risk, can be reviewed based on the capital structure or the value of the company's leverage (Egbunike & Okerekeoti 2018). Dao & Ta (2020) explains that capital structure is a direct determinant of the overall cost of capital and contributes to the company's risk level. The choice of capital structure composition indicates a significant financial decision of a company based on the amount of money and has a sustainable impact on the company (Wassie 2020).

Another factor that is thought to influence profit growth is efficiency. Efficiency shows how efficiently the company manages its resources. When the company is more efficient in reducing costs, the company will earn greater profits (Usmar, 2015). Karimi & Barati (2018) reveal that optimal economic and financial performance in a company depends on how efficiently the finance department works.

The urgency of investment decision quality, business risk and efficiency on profit growth has not been matched by consistent empirical study results. Usmar (2015) reveals that the level of profitability which represents the quality of investment decisions and solvency which reflects the level of business risk has proven to have an influence on the company's profit growth. Siregar & Batubara (2017) mentions that the level of use of debt as a measure of business risk has a significant role, but the level of company efficiency is proven to have no effect on profit growth. Susilawati (2020) revealed that business risk and efficiency have a significant influence on profit growth. Siregar et al. (2019) revealed that efficiency has a significant role in profit growth. Therefore, further studies are needed regarding the role of investment decision quality, business risk and efficiency on the company's profit growth rate.

This study aims to provide empirical evidence regarding the role of investment decision quality, business risk and efficiency on the company's profit growth rate. This research theoretically contributes to the development of science in the field of financial management, especially regarding profit growth in the property, real estate and building construction sectors.

The research uses Trade-off theory. Trade-off theory provides an explanation of how big the proportion of the level of debt use that should be used by the company so that the company can maximize corporate tax savings. With the use of debt, the company will bear interest costs. The interest expense incurred is a deduction factor for the tax burden charged to the company (Utami et al., 2021).

Profit growth is defined as an indicator that shows the company's capability to increase net profit in a certain period compared to the previous period (Napitupulu, 2019). Profit growth analysis is useful for stakeholders, including, firstly, the company's profit becomes the basis for determining dividend policy for the company; second, profit becomes the basis for calculating corporate tax; third, the level of profit is the basis for determining investment decisions; fourth, the level of profit can be used as a reference for projecting profits in the future; fifth, the level of acquisition is an indicator to measure the performance of the company's management (Siregar et al., 2019).

The quality of investment decisions is an indicator of financial performance that represents the company's capability to create profits. Financial performance is defined as the company's capability in managing the availability of financial resources efficiently in order to achieve company goals. Financial performance is used as a measure of the company's success in achieving financial goals (Taouab & Issor 2019). The higher quality of investment decisions represents several competitive advantages that enable profit creation (Bunea et al. 2019), and has a significant contribution to the creation of shareholder value (Tauke et al., 2017; Aras & Yildirim, 2018; Ahmed, 2015; Altaf, 2016; Hall, 2016; Barajas, 2017; Hall, 2018; Makhija & Trivedi, 2020; Sianturi, 2020). The quality of investment decisions shows the level of effectiveness of a company in its operational activities as an effort to create company profits. The better the quality of the company's investment decisions, the more efficient the company is in reducing operational costs so that company profits can grow (Usmar, 2015). The first alternative hypothesis proposed in this study is:

Conceptually, risk in the business context is defined as a series of risk management processes by analyzing all business activities (Crovini et al., 2020). In the financial sector, business risk can be reviewed, one of which is through the company's capital structure (Elkhal, 2019). Capital structure is defined as the optimal composition of debt and equity use to meet the company's investment needs (Vo 2017; Bolarinwa & Adegboye 2020; Saif-Alyousfi et al. 2020). Li et al. (2019) revealed that the higher level of debt use will increase the company's financial risk. The greater the proportion of the use of debt, the higher the interest costs paid by the company will be. Viewed through the trade-off theory, interest costs arising from the use of debt provide tax savings benefits for companies (Utami et al., 2021). Minnis & Sutherland (2017) explained that debt with low credit risk will minimize the risk of default by continuing to monitor it with the aim of obtaining greater profits in the future. Ramli et al. (2019) revealed that the level of leverage with optimal proportions can improve the company's financial performance. The use of an optimal proportion of debt can help minimize the overall cost of capital and increase the company's ability to earn a profit (Jaisinghani & Kanjilal, 2017). Siregar & Batubara (2017) and Susilawati (2020) reveal that the level of use of debt as a representation of the company's business risk has a significant role in profit growth. The second alternative hypothesis proposed in this study is:

Corporate efficiency is defined as a process of how companies manage limited resource inputs to create maximum output (Rahman et al., 2018). Efficiency in this study is defined as the company's level of efficiency in utilizing its assets to improve the company's financial performance (Houmes et al. 2018). Increasing efficiency through the use of assets, increasing sales in profit margins and asset turnover play a role in increasing the value of the company's financial performance. González et al (2019) revealed that efficiency has a significant effect on the company's profit creation. Firms with greater efficiency have a higher flow of financial resources (such as assets), being the key to future firm productivity (Cabaleiro-Cerviño & Burcharth 2020). Thus, efficiency can maximize profit gain (Siregar et al., 2019). The third alternative hypothesis proposed in this study is:

Based on the proposed alternative hypothesis, the research model framework built in this study can be represented through Figure 2.

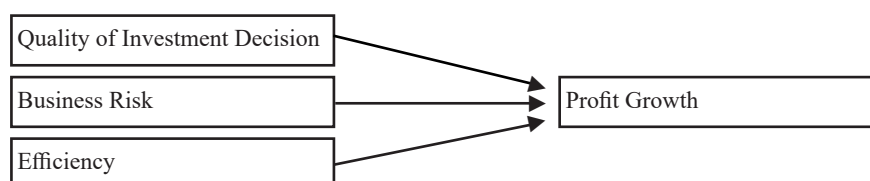


Figure 2. Research Model Framework

## METHOD

This research is an associative research conducted to identify the relationship between one variable and another variable. This study aims to provide empirical evidence regarding the role of investment decision quality, business risk and efficiency on corporate profit growth.

The research population consists of all companies in the property, real estate and building construction sectors. The sampling of the research was carried out by purposive sampling method. This method was chosen to obtain a research sample in accordance with the specified criteria. The sampling criteria are as follows: 1) Property, real estate and building construction sector companies listed on the Indonesia Stock Exchange during the 2015-2018 period, respectively. 2) The company publishes financial statements or financial statements that have been audited for the 2015-2018 period. 3) The company has complete financial data regarding the quality of investment decisions, business risk, efficiency and profit growth for the period 2015 – 2018. Based on these criteria, a research sample of 50 companies or 200 observations was obtained.

The dependent variable in this study is profit growth. Profit growth is defined as the difference between net profit in a certain year and net profit in the previous year compared to net profit in the previous year (Napitupulu, 2019). The independent variables in this study include: a) Quality of investment decisions, defined as the ratio between net income and total company assets which is generally known as return on assets (Sofat & Singh (2017); Sohrabi & Movaghari (2020)). Return on assets shows the company's ability to generate net income by using the company's assets. b) Business risk, defined as the ratio between total debt to total company assets or generally known as debt to asset ratio (Alipour et al., 2015; Sofat & Singh, 2017). The higher the debt-to-asset value indicates that the higher the business risk because asset funding using debt is greater (Sukamulja, 2019). c) Efficiency, defined as the comparison between revenue and total assets or called the asset turnover ratio (Karimi & Barati 2018). The asset turnover ratio represents the efficient use of assets to encourage an increase in the company's financial performance

This study uses secondary data with panel data format. Secondary data refers to information collected from existing data sources. Research data is obtained through a review of audited financial statements and published through the data provider website [www.idx.com](http://www.idx.com) and related company websites. This research uses linear regression analysis method. The regression model built in this study is as follows:

$$EGrowth = \beta_0 + \beta_1 KKI + \beta_2 RBis + \beta_3 Efis + \varepsilon$$

Information:

EGrowth	= Profit Growth
$\beta_0$	= constant
$\beta_1-3$	= Regression coefficient
KKI	= Quality of investment decisions
RBis	= Business Risk
Efis	= Efficiency
$\varepsilon$	= Error

## RESULTS

The estimation results of the regression model are presented in the following Table:

Table 1. Final Estimation of Regression Model

Research variable	Predictor	Regression Coefficient	Standard Error	tRhitung	P> t
investment decision quality (X1)	ROA	54.7410	8.3987	6.5178	0.0000*
Business Risk (X2)	DAR	1.8359	0.8714	2.1068	0.0364*
Efficiency (X3)	ATO	-6.5167	1.8916	-3.4451	0.0007*
constant		-122.1234	86.8738	-1.4058	0.1614
Prob > F		0.0000			
RP2		0.1882			

Source: Processed data (2021)

Note: \* means significant at the assumption of a significance level of 5%

Based on the estimation results of the regression model in Table 1, the coefficient of determination is 0.1882 or 18.82 percent. So it can be concluded that 18.82 percent of the determinants of profit growth can be explained through the variables of investment decision quality, business risk and company efficiency. Meanwhile, 81.18 percent of profit growth is influenced by other variables outside the model.

From the results of data processing in the F Statistical Test, it is concluded that the variables of profitability, firm size, and firm growth simultaneously have an influence on capital structure. This is evidenced by the value of Prob > F (0.0000) which is lower than the level of significance ( $\alpha = 5\%$ ). Based on the results of the F statistical test, the regression model has been properly specified and has been proven.

Based on the results of the t-test statistic, it proves that the variables of investment decision quality, business risk and company efficiency have a significant role in profit growth. The following table summarizes the results of the t statistical test:

Table 2. Summary of T Statistics Test Results

Research Variable	Predictor	t hitung	P> t	description
Investment Decision Quality (X1)	ROA	6.5178	0.0000*	Significant
Business Risk (X2)	DAR	2.1068	0.0364*	Significant
Efficiency (X3)	ATO	-3.4451	0.0007*	Significant

Source: Processed data (2021)

Based on the estimation results of the t statistical test, the analysis of alternative hypothesis testing can be explained as follows:

In Table 2, the results of the t statistic test show the P value > |t| the investment decision quality variable is 0.0000 with a t value of 6.5178. The t value of 6.5178 indicates that the direction of the coefficient of the investment decision quality variable is positive. P value > |t| of 0.0000 < the assumption of a significance level ( $\alpha = 5\%$ ) which means that the first hypothesis in this study is accepted. The results of the interpretation of the first hypothesis are partially proven that the investment decision quality variable has a significant role in earnings growth.

In Table 2, the results of the t statistical test show the value of P > |t| the business risk variable is 0.0364 with a t-count value of 2.1068. The calculated t value of 2.1068 states that the direction of the coefficient of the business risk variable is positive. At the value of P > |t| The statistical t test shows a value of 0.0364 < the assumption of a significance level ( $\alpha = 5\%$ ) meaning that the second hypothesis in this study is accepted. The result of the interpretation of the second hypothesis is that partially, the business risk variable has a significant role in profit growth.

In Table 2, the results of the t statistical test show the value of P > |t| obtained from the efficiency variable of 0.0007 with a t value of -3.4451. The t value of -3.4451 states that the direction of the coefficient of the efficiency variable is positive. At the value of P > |t| The statistical t test shows a value of 0.0007 < the assumption of a significance level ( $\alpha = 5\%$ ) meaning that the third hypothesis in this study is accepted. While the results of the third hypothesis interpretation are partially proven, the efficiency variable has a significant role in profit growth.

## DISCUSSION

This study provides evidence that the quality of investment decisions has a significant role in the company's profit growth. This is evidenced by the value of P > |t| the investment decision quality variable is 0.0000 which is smaller than the assumed significance level ( $0.0000 < 0.005$ ). The t value of 6.5178 indicates that the direction of the influence of the quality of investment decisions on profit growth is positive. Significant results indicate that this study has sufficient evidence to explain the effect of the quality of investment decisions on earnings growth. The direction of positive influence indicates that the better the quality of the company's investment decisions, the higher the company's profit growth. The higher quality of investment decisions shows that the company has a competitive advantage in creating profits (Bunea et al. 2019). The better the quality of investment decisions, the more effective the company in its activities and can reduce operating costs so that company profits can grow (Usmar, 2015). The results of this study support the results of Usmar's (2015) research which states that the company's ability to create profits or profitability has an influence on the company's profit growth.

This study provides evidence that business risk has a significant role in the company's profit growth. This is evidenced by the value of P > |t| the business risk variable is 0.0364 which is smaller than the assumed significance level ( $0.0364 < 0.005$ ). The t value of 2.1068 indicates that the direction of the influence of business

risk on profit growth is positive. Significant results indicate that this study has sufficient evidence to explain the effect of business risk on profit growth. The direction of positive influence indicates that the higher the business risk faced by the company, the greater the projected profit growth obtained by the company. The higher business risk is represented by the higher level of debt usage. Viewed through the trade-off theory, the interest costs borne by the company from the use of debt provide tax savings benefits for the company (Utami et al., 2021). The use of debt proportions with optimal proportions can help minimize the cost of capital so as to increase the company's ability to earn profits (Jaisinghani & Kanjilal, 2017). The results of this study support the results of research by Siregar & Batubara (2017) and Susilawati (2020) which reveal that the level of use of debt as a representation of the company's business risk has a significant role in profit growth..

This study provides evidence that efficiency has a significant role in the company's profit growth. This is evidenced by the value of  $P > |t|$  the efficiency variable of 0.0007 is smaller than the assumed significance level ( $0.0007 < 0.005$ ). The calculated t value of -3.4451 indicates that the direction of the effect of efficiency on profit growth is negative. Significant results indicate that this study has sufficient evidence to explain the effect of efficiency on profit growth. The direction of the negative influence indicates that the higher the level of company efficiency, the lower the company's profit growth. This can be caused because the company is not effective in turning its assets. When the company carries out high production activities, it is followed by the emergence of higher operating expenses borne by the company. The company has not been able to maximize the use of assets to increase sales, so that it has an impact on the level of sales and company revenues (Siregar & Batubara, 2017). Thus, the higher the costs borne by the company can suppress the profit growth of a company. The results of this study support the results of research by Susilawati (2020) and Siregar et al. (2019) which states that business risk and efficiency have a significant influence on profit growth.

## CONCLUSION

This study aims to provide empirical evidence regarding the role of investment decision quality, business risk and efficiency on corporate profit growth. This study provides evidence that the quality of investment decisions, business risk and efficiency have a significant role on the company's profit growth. This is supported by the estimated positive and significant relationship between the quality of investment decisions and business risk variables on profit growth, as well as the estimated negative and significant relationship between efficiency and company profit growth. Thus, the objectives of this study have been achieved.

The results of this study provide policy recommendations for company management that company management must pay attention to the level of company efficiency, because efficiency in this study has been proven to have a negative role on profit growth. Company management can manage resources so that the company has a high level of efficiency, but it is also necessary to consider the costs arising from each decision taken.

This research is limited to empirical studies regarding the role of investment decision quality, business risk and efficiency on the growth of corporate profits. Future research is expected to consider aspects of state governance such as political stability on corporate profit growth.

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