RESEARCH ARTICLE   OPEN ACCESS

Determinants of Sustainable Growth Rates on Digital Companies in Indonesia

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Abstract:

The rapid growth of the digital economy in Indonesia has created challenges for digital companies in managing assets, leverage, and profits to maintain and increase the company's sustainable growth. This study aims to examine the factors that influence the sustainable growth rate (SGR) of digital companies in Indonesia. The dependent variable is SGR, while the independent variables are leverage, asset turnover, profitability, and liquidity. This study uses 9 samples selected through a purposive sampling technique in a population of digital companies that have conducted an initial public offering on the Indonesian stock exchange (IDX) and published financial statements for at least 6 quarters during the first quarter of 2021-second quarter of 2022. Data were analyzed using panel data regression with Econometric Views Enterprise Version 10 tool. The results showed that leverage, asset turnover, and profitability have a positive and significant effect on SGR while liquidity has a negative effect on it. These findings recommend that companies maintain leverage at a certain level, good asset turnover, and high profitability so that the company can grow sustainably. In addition, liquidity needs to be maintained at certain limits so that company assets can be used effectively and sustainably.

Keywords **—sustainable growth rate, leverage, asset turn over, profitability, liquidity**

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I.   INTRODUCTION

Digital economic growth is supported by a digital company ecosystem that is getting better. Indonesia ranks fourth in the world through 11 digital companies with unicorn status which have a valuation of over USD 1 billion. Currently, Indonesia is developing 2,305 digital companies by 2022. Indonesia's digital economy has grown rapidly in the last 5 years with economic potential projected to reach USD 146 billion by 2025 [6]. A report issued by Google, Bain & Company states that the value of Indonesia's digital economy increased by 49% (YoY) in 2021.[11]

The huge potential of the digital economy is not easy for digital companies to achieve. CBInsights [9] reveals 20 main reasons for digital company failure and 69% of them are caused by financial management factors, such as: running out of capital (29%) and financing (18%).

Figure 1
Valuation of the top 8 Indonesian digital companies in November 2021
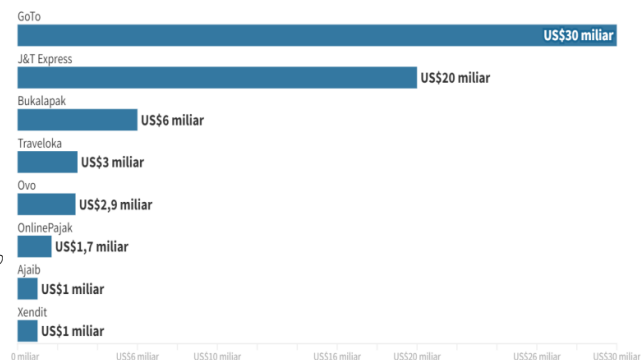
The Indonesian Information and Communication Technology Creative Industry Society (MIKTI) stated

that the main problems faced by digital companies included 34.1% related to capital and 12.9% related to markets. Frans&Setiawan's office said that the main problem with digital companies is that their operational funds depend on outside funding through fundraising, private placements to loans [9]

The Start-up bubble burst is a current issue for global and Indonesian digital companies during January-June 2022. According to [8], more than 1,000 employees with 1-8 years of experience are affected by the bubble burst in Indonesia. In global-scale digital companies, 13,381 employees (21%) in the transportation sector, 8,198 employees (13%) in the travel sector, and 7,454 employees (12%) in the retail sector were affected by the bubble burst. [8]Institute for Development of Economics and Finance (Indef) researcher, Nailul Huda said the source of the problem with Indonesia's bubble burst was related to funding, where they still needed operational funds but did not receive external funding which resulted in cash run out. [9]

The various issues above lead to problems, namely the company's difficulties in managing assets, leverage, and profits in increasing the company's growth in a sustainable manner (SGR). Previous research shows 4 factors that influence the company's growth rate. Research by[2],[5],[10],[13]and [15], found that leverage, asset turnover, profitability, and liquidity have a positive and significant effect on SGR.

II. THEORETICAL REVIEW

A. Sustainable Growth Rate

Sustainable growth rate (SGR) is a multiphase concept of a company's operational performance and financial management where the maximum sales growth rate can be achieved by the company without running out of financial resources, not adding external funds or new shares, and only focusing on maintaining the existing capital structure. Thus this concept is considered an ideal measurement tool for the growth of a company. [5][13]

The concept of the Sustainable Growth Rate (SGR) was introduced by Higgins in 1977, that SGR describes a growth concept that uses internal financing and unchanging Leverage conditions. The measurement of the Sustainable Growth Rate (SGR) shows operational and financial performance. Profits obtained should not be distributed entirely to shareholders but reused in business [13]. SGR can be measured using the equation:

$$SGR = return\ on\ equity \times (1- dividend\ payout\ ratio)$$

Return on equity is the return on net profit on equity which is used to measure a company's ability to generate profits with equity capital invested by shareholders.

The dividend payout ratio is the ratio of the total amount of dividends paid to shareholders to the company's net profit. In general, this ratio should not exceed 100% because it will result in the company having to pay dividends in excess of the company's net profit.

B. Leverage

Leverage is any technique that involves borrowing funds to buy something, with the hope that the future profit will be many times the cost of the loan. The concept of leverage is generally used to measure a company's development in enlarging its business scale. The Leverage Ratio compares the entire debt burden of the company with the company's assets or equity. If the Leverage ratio increases, the company will increase additional financing on its debt. Leverage can basically be measured by 2 types of ratios, namely the debt to asset ratio (DAR) and the debt to equity ratio (DER).[2][13]

DAR is a company's ability to finance its assets by relying on debt. DER is a comparison that shows the company's business risk over the amount of debt to the ability of shareholders to provide internal funds in the form of equity. If the DER is above 50%, this company relies on greater debt than equity. In this study, the leverage ratio used is DAR, with the equation:

$$debt\ to\ asset\ ratio\ (DAR) = total\ debt/total\ assets$$

Research conducted by [2], [5], [13], and [15] found that leverage has a positive effect on SGR. Meanwhile, the findings of [10] and [12] have a negative effect on it.

C. Asset Turn Over

Asset Turn Over is a variable used to measure asset utilization which will be variable using total asset turnover (TATO). The increase in TATO per asset increases the company's sales. This can reduce the company's need for existing assets because if sales grow, it will increase SGR. The Asset Turnover Ratio is used to calculate the company's strength to be able to create sales from assets that compare net sales to average total assets. While TATO is a ratio that shows the level of efficiency in the use of all company assets or assets to be able to create or produce the desired sales volume, the greater the TATO value, the more efficient the use of assets owned for sales [4][15]

Asset Turnover (TATO) reflects how efficient asset management is aimed at earning income in operating activities so that if the value of TATO is high, it will have a positive effect on Stock Returns [5][7][13]. TATO is measured using the equation:

$$TATO = sales/total\ assets$$

Research conducted by [15] found that Asset Turn Over had a positive effect on SGR, while the findings of [7] had a negative effect on it. Even the findings of [5] and [13] have no effect on it.

D. Profitability

Profitability is a company's ability to obtain profit from revenue (earnings) related to sales, assets, and equity-based on certain measurements. Profitability analysis is generally used to assess the extent to which a company is able to generate profits for shareholders and also to measure the efficiency of using company assets. Profits earned by the company should be able to reflect the effectiveness of investment, shareholder equity, and use of assets. Therefore profitability can be measured using the Return on Assets Ratio (ROA), Return on Equity Ratio (ROE), or Return on Investment (ROI).[2][10]

ROA is a ratio used to assess the level of profit earned by a company related to total assets so that a company's efficiency in managing its assets can be seen from this ratio. ROE is a ratio used to assess a company's ability to generate profits from the company's equity. ROE shows how successful the company is in managing net worth so that the level of profit measured from the equity of the owner of capital or the company's shareholders can be calculated. ROI is the ratio calculated from net income to total assets. ROI is useful for measuring the ability of the company as a whole to generate profits against the total assets of the company as a whole. The higher this ratio means the better the condition of a company[12].

In this study, the ratio used is ROA which can be measured using the equation:

$$ROA = net\ income/total\ assets$$

Research conducted by [2] and [10] found that profitability has a positive effect on SGR. Meanwhile, the findings of [12] have a negative and insignificant effect on SGR.

E. Liquidity

Liquidity is the ability of a company to meet its short-term obligations at maturity. A company is said to be liquid if it has a means of payment in the form of current assets which is greater than all of its current liabilities. If the level of liquidity of a company is high, then the company's performance will be judged to be getting better. Conversely, if the level of liquidity is low, the company's performance will be considered poor. With a high level of liquidity, a company can more easily get support from various parties such as financial institutions, creditors, and raw material suppliers[5][7].

Company liquidity can be measured by the current ratio, quick ratio, and cash ratio. The current ratio is the level of a company's ability to use current assets to pay all of its current liabilities or debts. The higher the total current assets, the higher the current ratio, which means the company has a high level of liquidity. Quick ratio or Acid Test Ratio shows how much a company's ability to pay off short-term debt using current assets without considering the company's inventory. This is because inventories take a long time to convert into assets. Cash and short-term securities are the most readily available components of current assets for liquidation. The cash ratio measures the liquidity of current assets that can be converted into cash[15].

This study uses the current ratio with the equation:

$$CR = current\ assets/current\ liabilities$$

Research conducted by [5] found that liquidity has a positive effect on SGR. Meanwhile, [7] have a negative effect on it. Even the findings of [13] and [15] do not affect SGR.

III. METHOD

This study uses a quantitative method which is a research method based on the philosophy of positivism, used to examine certain populations or samples, data analysis is quantitative/statistical to test established hypotheses [14]. This study uses secondary data from financial reports listed on the Indonesian Stock Exchange (IDX).

Sources of data in the form of financial statement (secondary data) as well as supporting data in the form of theories and research journals (previous research). The population in this study are digital companies in Indonesia that have conducted IPOs at IDX as many as 10 companies. Sampling was carried out using the Purposive Sampling method with the criteria of digital companies that have published financial statement for at least 6 quarters in the range of the first quarter of 2021-second quarter of 2022 at IDX so that 9 sample companies were obtained.

Table 1
List of companies as a sample

No	Brand	Company name	IDX code
1	Kioson	PT KiosonKomersial Indonesia Tbk	KIOS
2	MCash	PT M Cash IntegrasiTbk	MCAS
3	Passpod	PT Yeloo Integra DatanetTbk	YELO
4	DIVA	PT Distribusi Voucher Nusantara Tbk	DIVA
5	NFC Indonesia	PT NFC Indonesia Tbk.	NFCX
6	HDI	PT HenselDavest Indonesia Tbk	HDIT
7	Telefast	PT Telefast Indonesia Tbk	TFAS
8	Maxima	PT Digital Mediatama Maxima Tbk	DMMX
9	Bukalapak	PT Bukalapak.com Tbk	BUKA

Data is processed using the Econometric Views Enterprise Version 10 analysis tool.This study aims to test the sustainable growth rate (SGR) as the dependent variable (Y) by using 4 independent variables, namely leverage (X1), asset turnover (X2), profitability (X3), and liquidity (X4).

Data were analyzed using descriptive statistics and inferential statistics. Descriptive statistics use the values of minimum, maximum, average, and Standard Deviation for all variables in this study. Inferential statistics were tested using panel data regression analysis. The panel data regression model uses a collection of Common Effect, Fixed Effect and Random Effect estimates. After finding a model, then choosing a method using the Hausman test and Chow test. The regression equation in this study is:

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + e$$

where:

Y = Sustainable growth rate

X1 = leverage

X2 = Asset Turnover

X3 = Profitability

X4 = Liquidity

a = Constant

b1 = Coefficient value of X1

b2 = Coefficient value of X2

b3 = Coefficient value of X3

b4 = Coefficient value of X4

e = error rate

IV. ANALYSIS AND FINDINGS
Descriptive statistics

Descriptive statistics are carried out for the purpose of collecting, organizing, summarizing, and presenting data with the hope that the data will be more meaningful, easy to read, and easily understood by data users. The results of descriptive statistics are presented in the table below :

Table2
Descriptive statistical results

Variable	Mean	Min	Max	Std.Dev.
Y	0.009	-0.028	0.127	0.026
X1	0.192	0.006	0.732	0.133
X2	1.831	0.038	7.510	1.701
X3	0.076	0.000	0.536	0.126
X4	12.705	0.473	113.951	21.650

This data shows that the average Indonesian digital company grows by 0.9% every quarter. This condition is not good enough because this company relies on external funding through fundraising and only has an average of 19.28% leverage, the rest is external funding in the form of fundraising either through venture capital funding or through the capital market. Besides that, the average profitability level is only 7.65% which shows a fairly low value even though it has very large liquidity, namely 1270.56%. This company should manage current assets more efficiently so that the funding obtained can have a higher impact on the company's profitability and growth.

Determination of Panel Data Regression Estimation Method

The panel data regression estimation model is handled by selecting one of three estimation models, namely the common effect model (CEM), the fixed effect model (FEM), and the random effect model (REM). The selection process was carried out by the Chow test and the Hausman test. The Lagrange multiplier test was not carried out because it was assumed that the Chow test and Hausman test were able to select one of the three estimation models [1]. The results of the Chow test and Hausman test can be seen in the table below:

Table 3
Chow test and hausman test results

Effects Test	Prob.	Cut-off	Result
Chow test	0.0015	CEM>0.05>FEM	FEM
Hausman test	0.859	REM>0.05>FEM	REM

The results of the Chow test and Hausman test show that the Random Effect Model (REM) is the right model to choose from. Referring to the research of [1] concluded that the advantage of panel data with the REM estimation model is that panel data has the

implication of not having to test classical assumptions again..

Panel data regression analysis

Panel data regression analysis was carried out using the REM estimation model and produced data as shown in the table below:

Table 4
Result of Panel data regression analysis

Variable	Coefficient	t-Statistic	Prob.
C	-0.01067	-1.22364	0.2269
X1	0.01164	0.48760	0.6280
X2	0.01320	4.94037	0.0000
X3	0.00922	0.37246	0.7112
X4	-0.00005	-0.43905	0.6625
R-square	0.37867		
F-test	0.00008		

Based on the table above, the regression equation is obtained, namely:

$Y = -0.01067 + 0.01164 X1 + 0.01320 X2 + 0.00922 X3 – 0.00005 X4$

The probability value of the F-test is 0.00008 <0.05 indicating that the independent variables simultaneously influence the dependent variable.

R-square value of 0.3786. This means that the independent variable in this study gives a significance of 37.86% to the dependent variable. While the remaining 62.24% are other variables not examined. the R-Square value is categorized as strong if it is more than 0.67, moderate if it is more than 0.33 but lower than 0.67, and weak if it is more than 0.19 but lower than 0.33 [3]. This also shows that the independent variables in this study have a moderate effect on the dependent variable.

The t-test shows that leverage has a positive and significant effect on the Sustainable growth rate of 0.01164, Asset Turn Over has a positive and significant effect on the Sustainable growth rate of 0.01320, profitability has a positive and significant effect on the Sustainable growth rate of 0.00922 and liquidity has a negative and not significant effect on Sustainable growth rate of -0.00005.

Discussion

In the above study, it can be seen that the leverage variable has a positive and significant influence on the Sustainable growth rate because leverage is an efficient way to maximize cash flow and increase working capital so that companies can grow sustainably.

The higher the level of leverage, the more sustainable growth it will increase because funding sourced from debt can increase the amount of working capital for the company. However, high leverage can increase the risk of a company defaulting on debt, thus allowing a company to go bankrupt. Thus, the company needs to continue to control and plan the level of leverage as a business strategy so that the company is able to increase SGR.

Companies generally have the responsibility of distributing dividends to shareholders so that net income is not reliable enough to increase working capital. The digital start-up companies in this study also show increasing leverage performance even though they generally rely on external funding, both in the form of fundraising series and private placements from shareholders.

This finding is in line with several studies, one of which was by [13] with the title is factors influencing the Sustainable growth rate of manufacturing companies on the Indonesian stock exchange for the 2015-2018 period which concluded that leverage had a significant positive effect on the Sustainable growth rate. Although there are differences in the variable approach because this study uses the Return on Equity (ROE) ratio as an indicator variable, this research uses the Return on Assets (ROA) ratio because it relates to the performance of digital companies' assets, which generally have more non-physical assets.

In the above study, it can be seen that the asset turnover variable has a positive and significant influence on the Sustainable growth rate because high asset turnover will increase the company's operational efficiency and also increase profits. This can increase the company's growth in a sustainable manner.

Asset turnover can show how much the company's assets contribute to sales. Although the level of asset turnover has significant differences between companies that are oriented toward tangible assets such as manufacturing and retail compared to companies that are oriented towards intangible assets such as service companies and digital companies. This affects the average turnover rate of digital company assets in general.

Digital start-up companies have a high intangible asset orientation such as software, patents, brand rights, and other valuable digital assets so tangible assets in the form of hardware, buildings, and other operational equipment are generally used to support business. This causes Asset Turn Over in digital start-up companies to

be below the Kashmir industry standard, which is 25 times.

This finding is in line with the research [15]entitled :Influencing Factors of Company's Sustainable Growth: Evidence from Indonesia which concludes that Asset Turn Over has a positive effect on the Sustainable growth rate. A higher asset turnover value will be followed by an increase in SGR. The higher the value of asset turnover in the company, the company's sales will increase and the utilization of company assets will be more efficient. This also shows that the sustainability of the company's growth requires management efficiency in the company's assets.

In the profitability variable above, it can be seen that profitability has a positive and significant effect on the Sustainable growth rate because the company's ability to earn profits will increase its internal funds so that it can increase the sustainable growth rate. With the availability of internal company funds, it will reduce funding from outside the company which can reduce the risk of bankruptcy of the company itself.

Profitability is generally used to measure a company's ability to generate profits. One of the methods used in this study is the ability to generate net income from company assets. The digital start-up companies in this study show a fairly good quarterly growth rate even though it appears that additional working capital is used more for business expansion but can still maintain relatively stable profitability.

Several digital start-up companies in this study had a profitability value of o because business expansion in that quarter resulted in a negative current profit, especially in the first and second quarters where these companies usually received a series of funding from new investors. The expansion was mainly in expansions that resulted in the procurement of tangible asset infrastructure so that it used large working capital but generally had stable profitability and annual growth.

This finding is in line with the research of [10] with the title is Corporate Sustainable growth rate: The Potential Impact Of Covid-19 On Malaysian Companies which concludes that increasing company profitability spurs company efficiency will increase SGR company. This situation occurs because the concept of a sustainable growth rate expects a company to be able to maximize sources of funds originating from the company's internal sources so that the resulting net profit does not need to pay too much debt costs if the

company uses little external funding, so it can increase the sustainable growth rate.

In the above study, it can be seen that liquidity has a negative and insignificant effect on the Sustainable growth rate because companies that have excess liquidity are not efficient in increasing company growth because several assets must be deployed to support growth strategies, and competitiveness is thus related to unproductive assets.

Increased liquidity in the company indicates that the company has increased current assets. In this case, current assets are not used efficiently while short-term debt continues to increase. Companies need to maintain the efficiency of current assets such as cash, receivables, and inventories so that they are not idle and can also maximize company profits.

Digital start-up companies in this study also show that the higher the liquidity, the slower the company's growth rate. If this liquidity continues to increase, the company will experience a decline in financial performance and lead to stagnation in company growth. This research shows that current assets accumulate in certain quarters due to periods of unstable use of cash and receivables by digital product- and service-oriented start-up companies.

This finding is in line with the research by [7] entitled : Assessment of Assets Quality and Liquidity on Sustainable growth rate of Small and Medium Banks in Kilimanjaro, Tanzania which concluded that liquidity has a significant negative effect on SGR. This proves that excessive liquidity will make the company inefficient due to the large amount of capital that is not utilized properly during the current period.

V. CONCLUSION

Based on the findings above, it can be concluded that: first, the leverage variable has a positive and significant effect on the sustainable growth rate which indicates that leverage is an efficient way to maximize cash flow and increase working capital so that the company can grow sustainably. Second, the asset turnover variable has a positive and significant effect on the sustainable growth rate so high asset turnover will increase the company's operational efficiency and also increase profits so as to increase the company's growth in a sustainable manner. third, the profitability variable has a positive and significant effect on the sustainable growth rate which indicates that the company's ability to generate profits basically also shows the company's ability to grow sustainably. fourth, the liquidity variable has a negative

and insignificant effect on the sustainable growth rate, which means that companies that have excessive liquidity will hinder the company's sustainable growth.

These findings recommend that companies maintain leverage at a certain level, good asset turnover, and high profitability so that the company can grow sustainably. In addition, liquidity needs to be maintained at certain limits so that company assets can be used effectively and sustainably.

These findings also recommend further research on other factors that can affect the company's sustainable growth.

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