DOES MARKETING PRODUCTIVITY AFFECT FINANCIAL DISTRESS? EVIDENCE FROM STATE-OWNED ENTERPRISES IN INDONESIA

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DOES MARKETING PRODUCTIVITY AFFECT FINANCIAL DISTRESS? EVIDENCE FROM STATE-OWNED ENTERPRISES IN INDONESIA

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Abstract

Financial distress in state-owned enterprises (SOEs) becomes a problem that needs attention. This study aims to analyze the effect of marketing productivity and earnings management on financial distress of SOEs with government subsidies as a moderating variable and firm size as a control variable. The sample consisted of 19 state-owned companies that received government subsidies and additional equity participation in 2015-2017. The data analysis method uses a quantitative approach. The results showed that marketing productivity affected financial distress in state-owned companies 2015-2017. Earning management and subsidy has no effect on Financial Distress in state-owned companies. High marketing productivity shows that SOEs are achieving high sales to meet public demand. Furthermore, earnings management has no effect on Financial Distress in state-owned companies. SOEs management which performs earnings management within certain limits so that it does not affect financial distress.

Keywords: Marketing productivity, earning management, financial distress, subsidy.

Introduction

The financial condition of state-owned enterprises (SOEs) in Indonesia is an exciting topic to study. The government must resolve this problem so SOEs can meet their operational needs. Several SOEs are still receiving government subsidies. The government gives subsidies to SOEs to be able to provide excellent services to the community. Based on Law No. 19 of 2003 concerning State-Owned Enterprises (SOEs), the government gives mandate to SOEs to conduct Public Service Obligation (PSO). The government can provide individual assignments to SOEs to carry out the function of public service.

On the other hand, SOEs as business entities must be able to compete with other private businesses as economic drivers for making a profit. The problem that arises is that some SOEs carrying PSO suffer losses, and experience financial distress. When the company is in financial distress, management must be able to identify the source of the crisis and find ways to overcome it (Platt, Platt, & Chen, 1995).

Several researchers have studied financial distress and financial health in Indonesian SOEs (Assagaf, 2017; Assagaf, Yusoff, & Hassan, 2017; Sayidah, Assagaf, & Possumah, 2019; Gunawan, Assagaf, Sayidah, & Mulyaningtyas, 2019). The research results of Sayidah et al. (2019) show that subsidies significantly reduce the level of the financial health of SOEs. The higher subsidies indicate a lower level of financial health or a higher level of financial distress. Factors that influence financial distress include working capital and leverage (Gunawan et al., 2019). Other studies examine the effects of financial distress and earnings management in the context of a family company. The results show there is a relationship between earnings management and financial distress. Companies that experience financial difficulty tend to do earnings management (Bisogno & R, 2015). The motivation of managers to manage earnings to encourage lenders to approve debt scheduling (Saleh & Ahmed, 2005). In public companies listed on the Indonesia Stock Exchange, financial distress has a positive and significant effect on earnings management. The higher of the financial distress that occurs, the higher of earnings management (Paramita, Sujana, & Herawati, 2017).

Assagaf et al. (2017) examined the effect of subsidies and earning management strategies on the financial strength of SOEs with capital structure as a moderating variable. The results show that government subsidies have a significant negative impact on financial strength. The result means that owned companies find it challenging to manage companies independently if the government continues to provide subsidies or additional capital. Profitability strategies have a significant positive impact on financial strength, which means there is an opportunity for management to practice earnings management as a strategy to increase the level of corporate financial strength or reduce financial distress. Other researchers tested earnings management and its effect on financial distress (Paramita et al., 2017).

In contrast to previous studies, this study uses the productivity variable as one of the independent variables. Another independent variable is earning management, subsidies as a moderator variable, and firm size as an as a control variable. Productivity is a measure of efficiency, and in a simple concept is a comparison between the amount of output obtained with the inputs used (Brynjolfsson & Hit, 1998; Syverson, 2010). Marketing activities produce output in the form of sales, which is the sum between volume and selling price. Inputs needed include advertising costs, facilities and infrastructure, and marketing resources. The greater the output produced will increase productivity. High productivity shows the company operates efficiently (Syverson, 2010). High efficiency reflects the results of good management practices. Best practice from management correlates with the level of survival of the company (Bloom & Reenen, 2007). The higher the survival level, the lower the level of

financial distress. Management, who succeeded in making efficiency, will achieve high productivity and reduce the level of financial difficulty.

The interesting thing to include marketing productivity as an independent variable is that the marketing field is an essential part of the company. But there is little research linking marketing productivity with the company's performance or financial condition. The results of O'Sullivan & Abela (2007) show that marketing performance has a significant effect on company performance, profitability, and stock returns. In Indonesia, Putri & Sopian (2017) studied the impact of marketing performance, which is proxied by sales growth and financial distress. They found there is a positive influence between sales growth and financial distress (Putri & Sopian, 2017). Other researchers showed different results. Lisiantara & Febrina (2018) indicated that sales growth did not affect financial distress. The previous studies found controversial results so that research on marketing performance and financial distress is still open. Different from earlier investigations, we use marketing productivity to measure marketing performance. Marketing productivity is a comparison of total sales with sales costs.

We expect the results of this study can contribute to management as input for managing company finances to avoid financial distress. Management can make decisions to improve the financial health of the company by basing on the factors that influence financial distress. Also, we hope to help the government in making SOE subsidy policies from the results of this study.

Literature Review and Hypotheses

Financial Distress and Marketing Productivity.

Financial distress is a condition of financial difficulties that are influenced by several factors. One factor that changes is marketing productivity. Marketing productivity is a measure to assess the work of the marketing department. Research on the effect of marketing productivity on financial distress, in particular, has never been studied. Previous studies using variables that were almost the same as marketing productivity was conducted by Putri & Sopian (2017) using variable sales growth. The results show that sales growth partially has a significant positive effect on financial distress. Investors can use this result as a consideration in assessing the company's financial condition. Another study was conducted by Lisiantara & Febrina (2018) with the finding that sales growth does not affect financial distress. O'Sullivan & Abela (2007) found a marketing performance to influence the company's financial performance positively. This result means that the better the marketing performance, the financial performance is getting healthier or not experiencing financial distress. Based on the description above, the hypothesis is:

H1: There is an effect of marketing productivity on financial distress.

Financial Distress and Earning Management.

Paramita et al. (2017) researched earnings management and its effect on financial distress, litigation risk, and corporate social responsibility disclosure. The results show that there is a significant favorable influence on financial distress on earnings management. Companies that experience financial distress are more likely to do earnings management. Similar results were found by (Bisogno & R, 2015) (Biso. Other findings show that companies that experience financial distress do more earnings management than financially sound companies (Jacoby, Li, & Li, 2019). There are more managers in companies that experience

financial distress by managing earnings by lowering earnings compared to managers of financially sound companies (Habib, Bhuiyan, & Islam, 2012). Management tends to do earnings management to avoid reporting losses or decreases in reported earnings (Ghazali, Shafie, & Sanusi, 2015). Based on the description, the hypothesis is:

H2: there is an influence of earnings management on financial distress.

Financial Distress and Government Subsidies

Subsidies are financial assistance provided by the government to companies, especially SOEs, to cover operational costs. In the SOEs, the government determines the selling price, which is often below market price. The government provides subsidies on the difference between tariffs and market prices. Subsidies, on the one hand, have a positive impact that is helping the community in obtaining facilities and services from the government. Still, on the other hand, there are negative impacts on financial performance. Research in China shows that companies that receive government subsidies fail to achieve excellent performance. But these companies were successful in showing social performance. These results indicate that subsidies can achieve social goals at the expense of profitability (Lim, Wang, & Zeng, 2018). Therefore, the government in designing subsidy policies needs to carefully determine the evaluation mechanisms and objectives of subsidies (Grilli & Murtinu, 2012). Another research on subsidies and financial distress was carried out by Sayidah et al. (2019). The results show that subsidies have a positive and significant impact on financial distress. The higher subsidies indicate a higher level of financial health or a lower level of financial distress. Based on the description, the hypothesis is:

H3: There is an effect of subsidies on financial distress.

Research methods

Population and Sample

The population in this study are state-owned enterprises (SOEs) in Indonesia. We selected samples by purposive sampling method. Several researchers have also used purposive sampling method to select their samples (Sayidah et al., 2019; Sayidah & Assagaf, 2019; Sayidah et al., 2019; Sayidah et al., 2020; Assagaf et al., 2017; Assagaf & Yunus, 2016; Assagaf, 2017b). The criteria of samples are (1) SOEs that received government subsidies during 2015-2017 (2) SOEs which published online annual reports on the company website during 2015-2017 (3) SOEs did not experience transactions of mergers, acquisitions, restructuring, and changes in business groups during 2015-2017. Based on those criteria, we collected 19 firms.

Variable Identification and Measurement.

Financial Distress

Financial Distress is a dependent variable. The measurement of financial distress in this study adopted Altman (1983). This Z score included five ratios according to the characteristics of the manufacturing companies of our samples. According to Altman (2018), the original Z-score model was only used correctly for manufacturing companies. Several researchers have used this Z-score of Altman with five ratios (Choy, Munusamy, & Chelliah, 2011; Chairunesia, Sutra, & Wahyudi, 2018; Lemonakis et al., 2017; Udin et al., 2017; Panigrahi, 2019).

The Z Score formula is as follows:

Zi = 1.2 X1 + 1.4X2 + 3.3X3 + 0.6X4 + 1.0X5

X1 = (Current assets - current debt) / Total Assets

X2 = Retained earnings / Total Assets

X3 = Earning before interest and tax / Total Assets

X4 = Market value of ordinary and preferred shares / Total book value of debt,

X5 = Sales / Total Assets.

Marketing Productivity

Marketing productivity, according to Hawkins, Best & Lillis (1987) in Sheth & Sisodia (2002) is relative market share times comparable price divided by marketing expenditure. For this reason, we define marketing productivity as added value that can be measured by the marketing function, relative to its costs. One measurement of marketing productivity is to use financial impact, which is profit, cash flow or other financial measures (Rust et al., 2004). This research measures marketing productivity by using the formula:

$$\text{Marketing Productivity} = \frac{\text{Sales (Without Subsidy)}}{\text{Cost of Sales}}$$

Earning Management

We use Healy measurement model of earnings management Based on Healy, (1985), there are two proxies to measure discretionary accruals and accounting procedures, namely total accruals and the effect of voluntary changes in accounting procedures on earnings. Total accruals include both discretionary and non-discretionary. Total accrual is the difference between net income and = cash flow from operating activities. The management earnings formula is as follows:

$$ACCR = NI - CFO$$

ACCR = total accruals; NI = net income before extra ordinary items; CFO = cash flow from operating activities.

Government Subsidies, Additional Equity Participation

The moderating variable of government subsidies is dummy variables. Companies that receive government subsidies and the data are provided is given notation 2, and other 1.

Firm Size
Company size is calculated based on measured using total assets. The formula of firm size is:

$$SIZE(t) = LOG\ (Total\ aset\ (t))$$

The technique of Data Analysis

We regression analysis techniques with the following formula:
$FD = \alpha + \beta 1Prod + \beta 2\ EM + \beta 3Subsidy + \beta 4Size + \varepsilon$

FD = Financial Distress, Prod = Marketing Productivity, EM = Earning Management, Subsidy = Government subsidies, Equity Participation, Size = Firm Size, α = Constant, β1, β2, β3, β4, = Regression Coefficient, ε = error estimate.

Results and Discussion

Descriptive Statistics

Statistical descriptions of the data used in this study are:
Table 1. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
FD	50	-.83	1.29	.413	.437
Prod	50	-12.82	1.33	-4.038	2.995
EM	50	5	18	12.09	3.660
SUB	50	.00	.69	.388	.348
Size	50	1.25	2.21	1.711	.312
Valid N (listwise)	50				

Based on the above data, it can be shown that the average financial distress is at a score of 0.43 with a minimum value of -0.83 and a maximum value of 1.29. Marketing productivity has an average score of 0.038 with a minimum value of -12.82 and a maximum value of 1.33. Earnings management has an average score of 12.09 with a minimum value of 5 and a maximum value of 18. Subsidy has an average score of 0.388 with a minimum value of -0.00 and a maximum value of 0.69.

Classic assumption testing

Data Normality Testing

This researcher conducted a data normality test using the Kolmogorov-Smirnov Test. The results of the test are as below:

Tabel 2. One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		50
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	.53111874
Most Extreme Differences	Absolute	.075
	Positive	.075
	Negative	-.062
Test Statistic		.075
Asymp. Sig. (2-tailed)		.200[c,d]

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.
d. This is a lower bound of the true significance.

Based on table 2 above shows the results of the significance of 0.2. Its means that the distribution of data is normal.

Multicollinearity Test

Multicollinearity test was tested by looking at the value of tolerance and variance inflation factor (VIF). The test results are as below:

Table 3. Multicollinearity Test Results

Model		Correlations			Collinearity Statistics	
		Zero-order	Partial	Part	Tolerance	VIF
1	Prod	.441	.492	.477	.695	1.438
	EM	.213	.171	.146	.912	1.097
	SUB	.151	.095	.080	.799	1.252
	Size	-.040	.216	.187	.619	1.616

a. Dependent Variable: FD

The multicollinearity test results showed a Tolerance value> 0.10 and a Variance Inflation Factor (VIF) value <10 for all independent variables, which means there was no multicollinearity.

The Test of Heteroscedasticity

The heteroscedasticity test is done by the Glejser Test, which regresses between the independent variables and the absolute value of the residuals. If the significance value between the independent variables with residuals is more than 0.05, then there is no heteroscedasticity problem. Heteroskedasticity test results are:

Table 4. Heteroskedasticity Test Results

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	1.229	.233		5.268	.000
	Prod	.018	.016	.170	1.154	.255
	EM	-1.987E-8	.000	-.184	-1.424	.161
	SUB	-.131	.087	-.208	-1.511	.138
	Size	-.300	.158	-.296	-1.896	.064

a. Dependent Variable: ABS_RES1

Based on the table above, the significance value between the independent variables and absolute residuals is more than 0.05, so there is no heteroscedasticity problem.

Result and Data Analysis

The results of regression model testing and hypothesis testing are below:

Table 5. Test Results F

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.803	4	.701	4.818	.003[b]
	Residual	6.544	45	.145		
	Total	9.347	49			

a. Dependent Variable: FD

b. Predictors: (Constant), Size, SUB, EM, Prod

F test results show that all variables, namely marketing productivity, profit management, subsidies, and company size as control variables, together affect financial distress. Financial distress variability that can be explained by the four variables can be seen from the adjusted R2 value of 23.8%. The rest is explained by other variables not included in the model.

Table 6. Test Results t

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	-.070	.347		-.203	.840
	Prod	.080	.023	.550	3.438	.001
	EM	-.007	.018	-.061	-.415	.680
	SUB	.280	.170	.223	1.646	.107
	Size	.460	.223	.329	2.058	.045

a. Dependent Variable: FD

Effect of Marketing Productivity on Financial Distress

The first hypothesis states that marketing productivity influences financial distress. Based on the results of the analysis show that the coefficient of impact of marketing productivity on

financial distress is 0.023, and the level of significance is 0.01 or 1%, so marketing productivity has an effect on Financial Distress, then the first hypothesis is accepted. Marketing productivity is the ratio of total sales to sales costs. From this ratio, it can be shown that the higher the total sales obtained by an entity and balanced with the efficiency of the cost of sales, positive marketing productivity is achieved. However, the increase in sales transactions was mostly carried out using credit transactions, thereby increasing the number of trade receivables, while most of the company debt must be paid off immediately using cash; as a result reducing the company's liquidity. Therefore, financial distress in the company has increased. This can be seen from the effect of marketing productivity on financial distress with a significance level of 2.5%. Companies can avoid financial distress by increasing sales margins.

The results of this study are also consistent with Widhiari and Merkusiwati (2015), which states that Sales Growth affects Financial Distress. But these results are different from the findings which state that sales growth has no effect on financial distress (Lisiantara & Febrina, 2018).

Effect of Earning Management on Financial Distress

The second hypothesis states that earnings management affects financial distress. Based on the results of the study showed that the coefficient of influence of earnings management on financial distress was 0.28, and the significance level was 0.68 or 68%. Hence, earnings management did not affect financial distress, so the second hypothesis was rejected. Earnings management is the manager's behavior in playing accounting policies to achieve the goal of gaining profit. The regression coefficient value is negative, and this shows that earnings management has a relationship that is not in the same direction with financial distress. The more often a manager in managing earnings, the decreasing the level of financial distress of the company. As a result of the earnings management process, the company's financial performance can look excellent, then it can attract investors and creditors to increase their capital in the company so that the company financial distress level can decrease.

For SOEs conditions that are still not going public, or are still in the form of subsidies and capital participation, this condition is generally fulfilled, where BUMN Directors are required to create profits through proper earnings management to reduce the risk or avoid financial distress that can affect BUMN performance in the eyes of the public. This result is also relevant to research from Ghazali et al. (2015), where company managers are increasingly involved in earnings management when the company is financially healthy and when the company's profits are high. The results of this study are also related to the research of Kurniawan (2009), which states that earnings management increases the likelihood of companies committing fraud. Also, research shows that fraud does not affect financial distress.

Effect of Government Subsidies on Financial Distress

The third hypothesis states that government subsidies influence financial distress. Based on the results of the study showed that the coefficient of influence of earnings management on financial distress of -0.047 and a significance level of 0.223 or 22.3%. With a significance level of 22.3%, it shows that the effect of government subsidies is not significant in influencing Financial Distress. This shows that high subsidies do not cause an increase in financial distress

Conclusion

This research was conducted to analyze the effect of marketing productivity, profit management, and subsidies on financial distress in state-owned companies. The analysis shows that marketing productivity has an impact on Financial Distress in BUMN companies. High or low marketing productivity affects the high and little likelihood of companies experiencing financial distress. The positive influence of this study shows that the high productivity of SOEs marketing can cause financial distress. This condition is due to SOEs receiving assignments from the government to meet the needs of the community without regard to the level of profitability and financial capability. High marketing productivity shows that SOEs are achieving high sales to meet public demand. Furthermore, earnings management has no effect on Financial Distress in state-owned companies. SOEs management which performs earnings management within certain limits so that it does not affect financial distress.

Government subsidies do not affect financial distress. Subsidies are given not because SOEs experience financial difficulties. Still, they are given to cover operational costs due to the selling price set by the government below the selling price in the market. Therefore the size of the subsidy does not affect financial distress. Company size as a control variable has a significant positive effect on financial distress. The bigger the company, the more likely it is to experience financial distress.

Suggestions for further research.

This research has limitations that can be corrected by further researchers. Research is only limited to the SOE sample. Future studies are expected to broaden the samples and add to other industrial sectors so that it can be seen how the influence of marketing productivity, earnings management on financial distress. This study only uses the variables of marketing productivity, earnings management, and subsidies and company size as a control variable. Future studies need to examine other variables beyond the independent variables used in this study that affect financial distress.

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