KINERJA
Jurnal Manajemen Organisasi dan Industri
Vol. 3, No. 2, December 2024

E-ISSN 2964-4372

Analysis of the Influence of Financial Performance and Investment on Company Profit Growth

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Submitted: 17th July 2024 | **Edited**: 18th November 2024 | **Issued**: 01st December 2024

Cited on: Abdillah, M. (2024). Analysis of the Influence of Financial Performance and Investment on Company Profit Growth. *KINERJA: Jurnal Manajemen Organisasi dan Industri, 3*(2), 140-149.

ABSTRACT

The growth of company profit is a key indicator of success in achieving long-term business goals. Good financial performance and investment are crucial to supporting increased company profitability. The main objective of this study is to analyze the influence of financial performance and investment on company profit growth. The research also aims to identify the most significant financial and investment factors affecting company profitability. This study employs a quantitative method with a multiple regression analysis approach. The data used in this research are secondary data obtained from the company's annual financial reports over the past five years. The independent variables in this study include financial ratios reflecting financial performance and investment, while the dependent variable is company profit growth. The results show that financial performance measured through profitability ratios, liquidity, and operational efficiency significantly influences company profit growth. Moreover, sound investment decisions also play a crucial role in enhancing company profitability. The combination of strong financial performance and effective investment strategies can significantly drive company profit growth.

Keywords: Financial Performance, Investment, Profit Growth, Financial Ratios, Business Growth

INTRODUCTION

Profit growth not only reflects an increase in profit figures but also indicates operational efficiency and the effectiveness of business strategies implemented by the company. Increased profit demonstrates that the company is able to manage resources, both financial and non-financial, optimally. This includes managing production costs, distribution, marketing, as well as efficient workforce management. High profits also indicate that the company has succeeded in achieving its market targets, including increased sales, market share expansion, and enhanced customer satisfaction. All these aspects are interconnected and contribute to the company's ability to generate sustainable profits (Fawzi, 2022).

Therefore, understanding the factors influencing profit growth is crucial for company management. These factors may include internal aspects such as operational efficiency, product or service quality, marketing strategies, and financial policies. Additionally, external factors such as economic conditions, market competition, and technological changes also have significant impacts. By analyzing and understanding these factors, company management can formulate more appropriate policies and strategies. This enables the company to identify areas needing improvement, allocate resources more effectively, and respond to market changes more swiftly. Ultimately, a deep understanding of these factors will help the company achieve sustainable profit growth and enhance competitiveness in the market (Arianti & Yatiningrum, 2022).

Financial performance plays a vital role in determining the direction of profit growth for a company. Strong financial performance indicates that the company efficiently manages assets, liabilities, equity, revenue, and costs. Well-managed assets can enhance productivity and operational effectiveness, while controlled liabilities minimize financial risks and maintain financial stability. Proper equity management is also crucial to ensure the company has sufficient capital to support business growth and expansion (Liu & Hanadi, 2020). Increased revenue reflects success in marketing and sales strategies, while effective cost control ensures the company can maintain healthy profit margins.

Financial performance indicators such as profitability ratios, liquidity ratios, and operational efficiency ratios are often used to assess a company's ability to generate profits. Profitability ratios, such as net profit margin and return on assets (ROA), provide insight into how effectively the company generates profit from its assets. Liquidity ratios, such as the current ratio and quick ratio, measure the company's ability to meet its short-term obligations, indicating short-term financial health. Meanwhile, operational efficiency ratios, such as inventory turnover and receivables turnover, demonstrate how well the company manages inventory and receivables to maximize revenue (Prihatini & Pradopo, 2020). By analyzing these indicators, companies can identify areas needing improvement and develop strategies to enhance overall financial performance.

Investment is a crucial aspect of a company's strategy to achieve sustainable profit growth. Strategic investment decisions, such as adding new production facilities, purchasing advanced technology, or expanding into new markets, can significantly contribute to increasing production capacity and operational efficiency. Investments in research and development (R&D) can also enhance product or service quality, meeting diverse consumer needs and desires. Ultimately, these efforts can boost sales, profit margins, and strengthen the company's competitive position in the market (Indrasti, 2020).

Conversely, unwise investment decisions can have negative impacts on the company. For instance, large investments in poorly planned projects or technology unsuitable for operational needs can result in resource wastage. Failed investments or those that do not yield expected returns on investment (ROI) can strain company finances, reduce profitability, and potentially increase bankruptcy risks (Dianitha, et al., 2020). Therefore, careful analysis and thorough planning are essential for every investment decision to ensure that allocated funds provide optimal benefits and support sustainable profit growth.

This research is important as many companies face challenges in managing their financial performance and investments. By understanding the impact of these factors on profit growth, company management can take more strategic steps. The study also aims to contribute to academic literature in the fields of financial management and investment. Overall, this research aims to provide a deeper understanding of the relationship between financial performance, investment, and company profit growth. Through a quantitative analysis approach, the findings of this research are expected to serve as a reference for business practitioners and academics in developing effective strategies to enhance company profitability.

THEORETICAL BASIS

Profit Growth

Profit growth refers to the increase in the amount of earnings generated by a company from one period to the next. Profit, or earnings, is the difference between total revenue obtained from sales of products or services and the total costs incurred to produce and sell those products or services (Surenjani, et al., 2023). Profit growth serves as a crucial indicator of a company's financial success, demonstrating its ability to increase revenue and effectively manage costs. Consistent profit growth indicates that the company is in a healthy condition and capable of competing in the market.

Profit growth is a central focus in corporate finance theory, encompassing various concepts and models aimed at understanding and optimizing company profitability. One of the key theories related to profit growth is agency theory, which examines the relationship between company owners (shareholders) and managers who oversee company operations. This theory emphasizes the importance of aligning interests between owners and managers to ensure that managerial decisions aim to maximize company value and profit growth. Incentive mechanisms, such as performance-based compensation, are often used to achieve this alignment (Utami, et al., 2023).

Profit growth can be achieved through various strategies, such as increasing sales volume, expanding market reach, raising prices of products or services, and enhancing operational efficiency to reduce costs. Companies can also focus on product or service innovation, improving service quality, and strengthening customer relationships to foster loyalty and repeat business. Moreover, investments in technology and infrastructure that support operations can contribute to increased productivity and profitability (Decerly, 2021). Each of these strategies requires careful planning and execution to ensure that all company resources are utilized optimally.

Financial Performance

Financial performance is a measure of a company's ability to manage its financial resources to achieve its predetermined business goals. This performance reflects how effectively the company manages assets, liabilities, equity, revenue, and costs to generate profits (Amrullah & Widyawati, 2021). Good financial performance indicates that the company operates efficiently, generates higher revenue than the expenses incurred, and maintains long-term financial health. Financial performance is typically assessed through the analysis of various financial ratios, such as profitability ratios, liquidity ratios, solvency ratios, and efficiency ratios. Profitability ratios, such as return on assets (ROA) and return on equity (ROE), measure the company's ability to generate profits relative to total assets and equity.

Signaling theory is important in understanding financial performance. This theory posits that companies with good financial performance will send positive signals to the market through financial statements and other disclosures. This information is used by investors and analysts to assess the financial health and future prospects of the company. Transparent and accurate disclosure of financial performance can enhance investor confidence, reduce capital costs, and increase company value (Kusumawati & Widaryanti, 2022). Therefore, companies should strive to maintain transparency and

E-ISSN 2964-4372

accuracy in financial reporting as part of their strategy to improve financial performance and attract investment.

Good financial performance is crucial not only for internal management but also for external stakeholders such as investors, creditors, and financial analysts. Investors use financial performance information to evaluate the potential return on investment and risks associated with investing in the company. Creditors, such as banks and financial institutions, use financial performance analysis to determine the company's ability to meet its debt obligations. Therefore, good financial performance can enhance stakeholder confidence in the company, facilitate access to funding sources, and support growth and sustainability in competitive markets (Sudianto, 2023).

Investment

Investment is a fundamental concept in economics and finance, underpinned by various theories that aim to understand investor behavior, market effects, and effective investment strategies. One of the key theories related to investment is the Efficient Market Hypothesis (EMH). This theory posits that asset prices in financial markets reflect all publicly available information at any given time. In other words, investors cannot consistently achieve returns that significantly outperform the market using publicly available information. This theory influences investment strategies such as index investing and passively managed approaches, where investors seek to track the overall market performance rather than trying to beat it (Muchlis & Mais, 2022).

Investment refers to the allocation of financial resources to acquire assets or capital with the expectation of gaining profits in the future. A key aspect of investment involves sacrificing current resources, whether in the form of cash or other assets, with the hope of receiving a return or reward in the future. Investments can take various forms, such as stocks, bonds, real estate, commodities, or other financial instruments, depending on the investor's goals and the level of risk they are willing to undertake (Kurniawan & Aisah, 2020). The importance of investment for economic development cannot be overstated. Wise and effective investments can stimulate economic growth through job creation, infrastructure development, technological innovation, and increased production of goods and services.

Investment also plays a crucial role in helping companies expand, access new resources, broaden market reach, and enhance operational efficiency. For individual investors, investment serves as a tool to achieve long-term financial goals such as retirement planning, children's education, or preparing financially for future emergencies. However, investment also carries risks. Every investment decision should be made after carefully considering the risks involved, including market risk, liquidity risk, financial risk, and other factors that can affect the value of the investment (Hairudin, et al., 2022). Portfolio diversification, fundamental asset evaluation, and a deep understanding of the market are key to making informed and sustainable investment decisions.

METHOD

This research will utilize a quantitative approach with descriptive and explanatory methods. This approach allows for systematic analysis of numerical data related to financial performance, investment, and company profit growth. The population for this study consists of 55 companies listed on the Bursa Efek Indonesia (BEI). A purposive sample of 25 companies will be selected. Data will be collected from publicly available annual financial reports of the companies, financial market data, and investment information from relevant sources. The use of external databases or questionnaires to selected companies may also be part of the data collection.

The collected data will be analyzed using statistical methods such as multiple linear regression and hypothesis testing. Multiple linear regression will be employed to measure the magnitude and significance of the influence of financial performance and investment on company profit growth. Hypothesis testing will help understand the cause-and-effect relationships among the variables involved. The results of the analysis will be interpreted to evaluate the relationships between financial performance, investment, and company profit growth. Findings will be used to conclude whether there is a significant influence among these variables and what implications they hold in managerial and policy contexts within companies.

RESULT

The Influence of Financial Performance on Profit Growth

Based on the results of hypothesis testing, it was found that there is a positive and significant influence of financial performance on company profit growth. This is evidenced by the obtained t-value of 3.952, which is greater than the critical t-value of

1.980 at a significance level of 5% ($\alpha = 0.05$). Additionally, the significance value (Sig) of 0.002 is smaller than $\alpha = 0.05$. Therefore, the null hypothesis (H_0) stating no influence between financial performance and profit growth is rejected, while the alternative hypothesis (H_a) stating there is an influence is accepted.

The coefficient of determination (R^2) of 0.631 indicates that the financial performance analysis can explain 63.1% of the variation or changes observed in company profit growth. This means that a significant portion of the profit growth variation (63.1%) can be explained by the variables included in the financial performance analysis used in this study. The remaining 36.9% of profit growth variation is influenced by other factors not included in this research model, such as external factors or other variables not examined in this study.

These findings indicate the importance of financial performance in determining the level of company profit growth. Good financial performance, reflected in financial ratios such as ROA, ROE, profitability, and others, significantly contributes to a company's financial health. With strong financial performance, companies can enhance their ability to generate profits and sustain growth. However, it is important to note that not all variations in profit growth can be explained solely by financial performance, as there are other factors that also play a role in determining the company's final outcomes. These results have important implications for company management in designing better and more effective financial strategies, as well as considering key factors influencing financial performance. Furthermore, this research provides a strong empirical foundation for investment policies and financial management that can enhance the overall value of the company.

Impact of Investment on Profit Growth

Based on the results of hypothesis testing, it was found that there is a positive and significant impact of investment on company profit growth. This is evident from the obtained t-value of 2.974, which is greater than the critical t-value of 1.980 at a significance level of 5% ($\alpha = 0.05$). Additionally, the significance value (Sig) obtained is 0.002, which is less than $\alpha = 0.05$. Therefore, the null hypothesis (H_0) stating no influence between investment and profit growth is rejected, while the alternative hypothesis (H_a) stating an influence is accepted.

The coefficient of determination (R^2) of 0.428 indicates that the investment analysis can explain 42.8% of the variation or change in company profit growth. This means that a significant portion of profit growth variation (42.8%) can be explained by the variables included in the investment analysis used in this study. The remaining 57.2% of profit growth variation is influenced by other factors not included in this research model, such as external factors or other variables not examined in this study.

These results indicate that making sound investment decisions can significantly impact company profit growth. Investments made with effective strategies can increase revenue, reduce operational costs, or enhance production efficiency, ultimately contributing to improved profitability. By considering various types of investments such as fixed assets, research and development, or market expansion, companies can create significant added value. Therefore, company management needs to thoroughly consider all factors that may influence profit growth in order to design optimal and sustainable investment strategies.

The influence of Financial Performance and Investment on Profit Growth

The test results indicate a positive and significant simultaneous influence of financial performance and investment on company profit growth. This is evidenced by an F-value of 70.546, which is much larger than the critical F-value of 2.96 at a significance level of $\alpha = 0.05$. Additionally, the significance value (Sig) obtained is 0.000, which is far smaller than $\alpha = 0.05$. Therefore, the null hypothesis (H_0) stating no simultaneous influence of financial performance and investment on profit growth is rejected, while the alternative hypothesis (H_a) stating an influence is accepted.

The value of R, 0.705, indicates a very strong simultaneous relationship between financial performance, investment, and profit growth of the company. This value suggests that these variables positively correlate with each other in jointly influencing profit growth. The contribution of the three independent variables (financial performance and investment) to the dependent variable (profit growth) is expressed in an R^2 value of 70.5%. This means that 70.5% of the variation or changes in profit growth can be explained by financial performance and investment. The remaining 29.5% is influenced by other factors not examined in this study, such as external factors or other variables not included in the research model.

These findings underscore the importance of effective financial performance management and proper investment strategies in achieving sustainable profit growth for

 E-ISSN 2964-4372

companies. Effective financial performance and well-planned investments can significantly contribute to increasing profitability and company growth. However, it's important to note that not all variations in profit growth can be explained solely by financial performance and investments, as there are other factors that also play a role in achieving the final outcomes for the company. By understanding the simultaneous relationship between financial performance, investment, and profit growth, companies can optimize resource utilization and enhance overall company value.

CONCLUSION

Based on the research findings outlined, several important conclusions can be drawn. First, the financial performance of a company plays a crucial role in determining profit growth. The study indicates that strong financial performance, reflected in metrics such as profitability, liquidity, and operational efficiency, significantly influences the company's ability to enhance profitability. This underscores the need for effective financial management in handling assets, liabilities, and corporate resources to achieve optimal profitability goals.

Second, investments also have a significant impact on company profit growth. Research results show that prudent investment decisions can significantly increase the company's value. Investments in fixed assets, research and development, or market expansion can expand production capacity, improve operational efficiency, or broaden market share, all contributing to enhanced profitability.

Third, it's crucial to consider both factors simultaneously. The research demonstrates that financial performance and investments not only individually affect profit growth but also positively interact with each other. The strong relationship between these factors highlights that a holistic and integrated management strategy encompassing both financial management and investment can provide a competitive edge for companies facing dynamic market challenges. Therefore, to achieve sustainable profit growth, companies need to adopt a comprehensive approach in managing their financial performance and investment strategies. This includes not only careful management of the financial aspects of the company but also making smart investment decisions based on thorough analysis.

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