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Testing marketing expenses role on the relation between leverage and performance

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Abstract

Marketing expenses usually one of the most important cost for the companies, but still few research in finance discussing about this. Previous study still inconsistent about the role of marketing expenses as moderator or mediator between the effects of leverage on financial performance. This research intended to empirically test on that subject. This research is using 1792 panel financial report data taken from 256 companies listed in Indonesian Stock Exchange during 2010-2016. There are three main variables in this research: performance that measures using returns on assets (ROA), marketing expenses is measures using natural logarithm of marketing expenses. Leverage is calculated using total debt per total asset. Data is analyzed using panel data regression. The results shows that marketing expense is a moderator but not mediator variable in the effect of leverage on financial performance. Marketing expense moderates negatively the relation between financial leverage on ROA. This is consistent with strategic management using Resources Advantage Theory and Du Pont Business Model.

Abstrak

Beban pemasaran biasanya adalah biaya yang paling penting bagi perusahaan, namun masih sedikit riset di bidang keuangan yang membahas tentang hal ini. Beberapa penelitian empiris sebelumnya memang telah menguji beban pemasaran dan kaitannya dengan leverage *serta kinerja keuangan perusahaan, namun demikian belum konsisten hasilnya sebagai variabel pemoderasi atau pemediasi. Penelitian ini bermaksud mengkonfirmasi peranan beban pemasaran tersebut. Sampel yang digunakan dalam studi ini adalah 1792 data panel dari Laporan Keuangan 256 perusahaan yang terdaftar di Bursa Efek Indonesia selama periode 2010-2016. Ada tiga variabel utama dalam penelitian ini, yaitu kinerja diukur dengan tingkat pengembalian aset (*return on assets *atau ROA), beban pemasaran diukur dengan logaritma natural dari beban pemasaran, serta* leverage *keuangan yang diukur dengan total utang dibagi dengan total aset. Sampel selanjutnya dianalisis dengan regresi data panel. Hasilnya menunjukkan bahwa beban pemasaran merupakan variabel pemoderasi, bukan pemediasi, dalam hubungan* leverage *dengan kinerja keuangan. Beban pemasaran memoderasi negatif pengaruh* leverage *keuangan terhadap ROA. Hasil ini konsisten dengan manajemen strategi menggunakan* Resources Advantage Theory *dan* Du Pont Business Model.

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1. Introduction

Marketing is the most important business strategic things in corporates' life. Every companies willing to pay marketing expense as much as they can, even more than production cost. Marketing is a component that is always disclosed in companies' financial reports with other accounting indicator such as net income, asset, debt and capital. Even though it disclosed very well, marketing expenses is rarely analyze as important variables in financial empirical research (Akdogan & Durak, 2016).

Resources advantage theory of competition stated there is relation between resource, marketing, and performance (Hunt & Morgan, 2005). Resources based view stated that for a good manager important to aligning organizational strategic with business strategic (Gyan, Brahmana, & Karim, 2017). Having debt as funding resources, a manager should be invested optimally in marketing expenses for building brand as intangible assets. Sometimes in the short terms it looked like spending costly debt for nothing, but in the long term hopefully this marketing strategy will result in a good financial performance. In reverse if CEO do not invest intangible marketing value soon, the future performance will be destroyed. Manager have to aligning between funding and investment, also between short term profit and long term value.

Previous research that study about marketing expenses antecedent and consequent still do not have consistent results, especially whether marketing is mediator or moderator variable on the relation between debt ratio dan performance. First, research by Bae, Kim, & Oh (2017) and Kim, Bae, & Oh (2019) stated that marketing is a moderator variables between debt leverage and firm value.

Second, the previous research result had not specifically tested whether marketing expenses mediating the relations between debt levels to performance. Previous prove that leverage have impact on marketing expense (Fischer & Himme, 2016) and financial performance (Gyan, Brahmana, & Karim, 2017). Another study stated that marketing expenditures have effect on performance (Cheng, Chan, & Leung, 2018). Using Baron & Kenny (1986) logics, this three variable may have mediation relation. This will be the originality of this research.

Several research on the relation between companies' leverage and performance also conduct in Indonesia but still have inconsistent results. Nurainun et al. (2017) empirical study shows that leverage that measured using debt to equity ratio (DER) having effect on firm performance (ROA and ROE). Meanwhile, study by Zulaecha (2017) shows that leverage have no significant effect to company performance. Contrast from idea that leverage could boost the financial performance, Februansyah & Yanuarti (2017) shows that debt ratio have negative impact on return on assets (ROA).

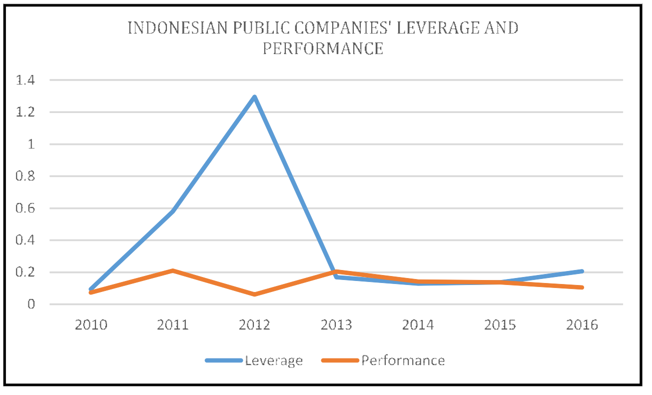

Figure 1. Indonesian public companies' leverage and performance 2010-2016

Figure 1 is the graphic of Indonesian companies' leverage (total debt/total asset) and financial performance (ROA). It can be seen that debt level in Indonesian companies is usually higher than its performance. This phenomenon shows the two side of debt. On one hand debt are generally accepted as a tools to increasing financial performance, since its interest could reduce the tax payment (Februansyah & Yanuarti, 2017). On the other hand too much debt can cause financial distress in the companies.

Based on previous research, this research will test marketing as mediator and moderator in the relation between debt level and financial performance. This study will conduct in Indonesian Stock Market, country with number 4 market populations for the world products.

2. Hypotheses Development

Resources advantage theory is mainly combined heterogeneous theory and resources based view of the firm, where the schemes are linking the comparative advantage resources, market position, and financial performance. (Hunt, 2012). Resources based view (RBV) three different branch, but the main assumption is company resources can managed to achieve long lasting performance (Barney, 2001). First, the branch that industry determinants of firm performance. Second, the branch (RBV) and neoclassical price theory where manager as economic actor are rationally utility maximizer and having different capability and different cost to attain profitability to outperform the others competitors. Based on market equilibrium, the more talented manager will be more costly than others. Third, RBV with evolutionary economics is called as Evolutionary competitive advantages. This is about variation, selection and retention as company fundamental process.

Asset is a resources where it can be use in company operational and convert as collateral to attain debt as company leverage (Stewart, 2009). Comparative advantages and marketing position can be achieve by spending on marketing expenses. Company's performance can be checked using ratio net income per asset. The relation between these three indicators will then examine whether mediating or moderating.

Another importance thing to be studied is the behavior of financial leverage. Leverage have polysemous signals of debt, a condition when it can have positive as well as negative effect on firm performance (Bae, Kim, & Oh, 2016). If this unpredictable effect of debt usage, company have to make difficult choice while making debt choice as sources of finance. Hence, it should be add to the model the additional predictor to make leverage controllable, such as mediator or moderator variable.

Gyan, Brahmana, & Karim (2017) prove that leverage have impact on performance. Hasan & Ali (2015), Meyer & Ujah (2017), Cheng, Chan, & Leung (2018), Memarista & Gestanti (2018), also Al-Surmi, Cao, & Duan (2019) stated that marketing have effect on performance. Fischer & Himme (2016) empirical result shows that debt ratio have impact on advertising expenses. Using Baron & Kenny (1986) logics, this three variable may have mediation effect. The first hypothesis based these research is:

H_1: marketing expenses mediating the effect of leverage on performance

Several study believe conclude that marketing have moderator effect on firm performance such as Liang & Frosen (2015), Hirunyawipada & Xiong (2018), also Sun, Price, & Ding (2018). Hanssen, Wang, & Zhang (2016), Bae, Kim, & Oh, and Kim, Bae, & Oh (2019) stated that there is moderating effect of marketing in the relation between leverage and firm value. Based on that, the second hypothesis of this research is:

H_2: the effect of leverage on performance is moderating by marketing expense

3. Method, Data, and Analysis

This is a quantitative research with the type of archival research. This is also a hypothesis testing type of research using statistical test.

Population is derived from financial reports companies listed in Indonesian Stock Exchange. Purposive sampling is employed in this research with 3 criteria. First, companies listed in Indonesian Stock Exchange during 2010-2016. Second, issues complete Financial Reports during 2010-2016. Third, Issues complete data during 2010-2016 for statistical test.

Data is analysis using regression for panel data in E-views. Variables operation definition are as follow. First, variable dependent is performance using return on asset (ROA) by Meyer & Ujah (2017). ROA is calculate using Net Income per Total Asset. Second, leverage (Lev) as variable independent that measure using formula Total Debt per Total Asset (Gyan, Brahmana, & Karim, 2017). Third, marketing expenditure (ME) that calculated by using logarithm natural of marketing expenses (Fischer & Himme, 2016) tested as mediating and moderating variables on the effect of Leverage on ROA.

Three additional control variable that will be use in the models. First and second, firm size by logarithm natural of total assets (LnA) and total sales (LnS) as suggested from according to Cacciolatti (2016). Third, corporate government also add as control variable as in Cheng, Chan, & Leung (2018). Institutional ownership (IO) that measured using Institutional ownership per total ownership. This because institutional owner effectively giving a good monitoring mechanism for manager behavior in achieving companies' value (Panda & Leepsa, 2019).

There are two data analysis in this research. First, hypothesis 1 is tested using two regression model as follows:

$$ME = \propto + \beta_1 Lev + \varepsilon \qquad (1)$$

$$ROA = \propto + \beta_1 Lev + \beta_2 ME + \beta_3 LnA + \beta_4 LnS + \beta_5 IO + \varepsilon \qquad (2)$$

ME mediating the relation between Lev and ROA if meet on these criteria. First, F test and t test model 1 are having significant effect with p value (<0.05). It means that leverage has effect on ME. Second, if F test in the model 2 is having significant effect with p value <0.05 and ME have effect on ROA with t test p value <0.05. It means that ME is fully mediating the relation between Lev and ROA. Third, if in the model 2 F test are having significant p value (<0.05) with Lev and ME have effect on ROA with t test p value <0.05. In this conditions, ME is partially mediating the effect of Lev on ROA.

Second, hypothesis 2 is tested using model as follows:

$$ROA = \propto + \beta_1 Lev + \beta_2 ME + \beta_3 LnA + \beta_4 LnS + \beta_5 IO + Lev * ME + \varepsilon \qquad (3)$$

Notes that Lev* ME is interaction between leverage and marketing expenses.

This research also perform robustness check by changing ROA as performance proxy with ROE (Return on Equity). ROE is measured as net income per book value equity (Memarista & Gestanti, 2018).

4. Results

There are 517 firms that listed in Indonesian stock exchange since 2010 up to 2016 less by 261 firms removed due to incomplete data for statistical analysis, total samples firms are 256 for 7 years. Total firm-years sample are 1,792. Sample overview can be seen in Table 1.

Table 1. Sample overview

	Firms	Years	Firm-years
Population	517		
Incomplete Data	(261)		
Sample firms	256	7	1,792

Descriptive statistics can be seen in Table 2. Performance measured using Return on Assets (ROA). The range is between (86.35) up to 105.97, with mean 0.22 and standard deviation 4.28. Debt per asset ratio is formula for leverage. It has minimum 0.000, maximum 476.56, and mean 0.70, with standard deviation 12.91. Marketing is calculate using logarithm natural of marketing expenses with average 19, standard deviation 1.95, and the number is between 15.19 up to 30.54.

Additional measurements are ROE, LnA, LnS, and IO. ROE is dependent variables for robustness test, have mean 0.83 and standard deviation 11.52. Three controls variables used in this research is companies' size using proxy's logarithm natural for total assets and sales also corporate governance using institutional ownership proxy. Ln asset have mean 28.76 with standard deviation 2.11, Ln sales have average 27.83 with standard deviation of 2.16. Institutional ownership having average 0.22 with standard deviation 0.19.

Normality are tested using Jarque-Bera. All of the variables are having p-value less than 0.05, it means that the variables do not have normal distribution. According central limit theorem parametric test still can be performed, since number data are more than 30 that considered as big samples.

Mediator testing

Mediation model test results is shown in Table 3. There are 2 initial model are used for testing mediation relation. The first model shows that leverage has no effects on marketing expense with F statistics 2.204311 with p value 0.137801 (>0.05), R^2 0.00123, t statistics is -1.48469 with p value 0.1378 (> 0.05).

The second model test using dependent variable ROA, independent variables leverage and marketing expenditures, and control variables Ln Asset, Ln Sales, And Institutional ownership. Model is fit with R^2 0.060 and F statistics 22.18139 and p value 0.000 (< 0.05). Leverage has effect on ROA with coefficient 0.061603, t statistic 7.712346 and p value 0.000 (0.05). Marketing expenses does not have significant effect on financial performance with t

Table 2. Descriptive statistics

Variables	Measurements	Min	Max	Mean	Std. Deviation	Jarque-Bera
Performance	ROA	(86.35)	105.97	0.22	4.28	12,147,744.34
	ROE	(105.069)	255.93	0.83	11.52	8,850,809
Leverage	Total debt/total asset	0.00	476.56	0.70	12.91	93,022,877.25
Marketing	Ln marketing expenses	15.19	30.54	19.00	1.95	2,161.95
Size	Ln asset	18.99	36.36	28.76	2.11	17.09
	Ln sales	18.84	34.67	27.83	2.16	49.71
CG	Institutional ownership	-	0.95	0.22	0.19	197.35

n =1792
*Normal distribution, p-value > 0.05

Table 3. Mediating test results

Model	Dependent	Independent	Coefficient	t statistics	R^2	F statistics
Model 1	ME	Lev	-0.00546	-1.48469	0.00123	2.204311
Model 2	ROA	Lev	0.061603	7.712346*	0.060	22.18139*
		ME	-0.01203	-0.22784		
		LnA	-0.47085	-6.02392*		
		LnS	0.417825	5.498117*		
		IO	-0.25233	-0.46469		

Conclusion: do not have mediating effect
*significant, p value < 0.05

statistics -0.227837 and p value 0.8198 (> 0.05). Control variables that have significant effect on ROA are Ln Asset with t statistics -6.02392 and p value 0.00(<0.05) also Ln Sales with t statistics 5.498117 and p value 0.000 (<0.05). Overall results can be conclude that marketing expense is not mediating the relation between firms' leverage and performance, hence hypothesis 1 is rejected.

Robustness test are conduct for Model 2 by changing ROA as proxy for performance with ROE. The results shows that R^2 model is 0.014. F-statistics model is 6.287 (p-value 0.00 less than 0.05). It means that model still fit. Leverage still has effects on performance but and marketing expense does not. It means that model for testing hypothesis 1 is robust. Table 4 shows the summary of mediation model robustness test.

Moderator testing

Moderating analysis testing results summary can be seen in Table 5. R^2 model is 0.12056, it means that independent variables can explain 12.056% dependent variable movement. F statistics is 39.04165 with p value 0.000 (less than 0.05) means that model is fit. Leverage has positive influence on performance with coefficient 4.291791 and t statistics 10.91003 (p value 0.000 less than 0.05). Interaction between Leverage and Marketing Expense also significantly effect ROA with coefficient -0.245184, t statistics -10.7555 (p value 0.000 less than 0.05). It means that Marketing effect having negative moderating role in the effect of Leverage on ROA, hence hypothesis 2 is accepted.

Table 4. Robustness test for mediation model

Model	Dependent	Independent	Coefficient	t statistics	R^2	F statistics
Model 1	ME	Lev	-0.00546	-1.48469	0.00123	2.204311
Model 2	ROE	Lev	0.115823	5.267432*	0.014546	6.287197*
		ME	-0.116083	-0.825925		
		LnA	-0.142060	-0.681742		
		LnS	0.289678	1.442247		
		IO	-0.644813	-0.446606		

Conclusion: do not have mediating effect
*significant, p value < 0.05

Table 5. Moderator testing results

Dependent	Independent	Coefficient	t statistics	R^2	F statistics
ROA	Lev	4.291791	10.91003*	0.12056	39.04165*
	ME	0.031951	0.623943		
	LnA	-0.42998	-5.68066*		
	LnS	0.377191	5.125242*		
	IO	-0.37763	-0.71888		
	Lev*ME	-0.24518	-10.7555*		

Conclusion: has moderating effect
*significant, p value < 0.05

Table 6 shows robustness test result. Robustness test are performed by replacing ROA with ROE as financial performance measurement. R^2 model is 0.079. F statistics is 26.84 (p value 0.000 less than 0.05), It means that ROE model is also fit. This model shows that Leverage has positive significant effect on ROE with t statistics 11.39 and p value 0.00 (less than 0.05), while Marketing Expenses has no effect on ROE with t statistics 0.06 and p value 0.94. Interaction between Leverage and marketing expense has negative effect on firms' performance. It means that marketing expenses is acted as moderator in relation between Leverage and ROE. Since the result moderating model using ROA and ROE is match, the model is robust.

5. Discussion

Based on statistical analysis, marketing related expenditures do not mediates the relation between financial leverage and firm value. Thus, the first hypothesis in this study is rejected. Debt to asset ratio that have positive effect on returns on assets, consistent with Gyan, Brahmana, & Karim (2017). Marketing expenses also has positive impact on firm's performance, this is consistent with Meyer & Ujah (2017). Therefore leverage do not have effect on marketing expenditures as predicted by Fischer & Himme (2016). This conditions is consistent with Resources Advantage Theory in Business Strategy. A manager should have a good business strategic to increases value of the firm with a good performance. Choosing debt to finance business and investing money in a good marketing strategies is important for attain a good company's financial performance. This results also shows that marketing spending have short terms positive effects on firm values.

Marketing is mediating the role between company leverage and performance. It also means that second hypothesis in this research is accepted. This is consistent with research of Bae, Kim, & Oh (2017) and Kim, Bae, & Oh (2019), but with different sign. Previous research stated that leverage is having positive effect on performance and this effect is stronger when marketing spending is higher. Therefore, in this study marketing expenditures is moderates negatively relations between debt level and ROA. Leverage having a positive effect on ROA. Meanwhile, when interaction between leverage and marketing expenses added the effect sign changing. It means that the higher debt ratio will make the higher performance, this effect is weaker when marketing expenses is high. This is can be explain by The DuPont strategic business model.

There are some similar result between main model and robustness test result for moderator testing. Main model using ROA as performance proxy, while robustness test change the proxy into ROE. Robustness model shows marketing expense having moderator role, not mediator in the relation between leverage and firm performance.

Table 6. Robustness test moderator testing results

Dependent	Independent	Coefficient	t statistics	R^2	F statistics
ROE	Lev	12.31391	11.39335*	0.079692	26.84808*
	ME	0.008574	0.062919		
	LnA	-0.036074	-0.178945		
	LnS	0.179036	0.921217		
	IO	-0.986510	-0.706873		
	Lev*ME	-0.706984	-11.28837*		

Conclusion: has negative moderating effect
*significant, p value < 0.05

The DuPont model stated that the basic formula ROA = Profit Margin x Velocity x Leverage (Blumenthal 1998). Margin is the differences between revenue and marketing expenses. In the same level product price, the higher marketing expenses will lead to lower margin. Velocity is the frequencies of sales. Even if a company's choose to have lower product price or higher marketing expenses that both will creates low profit margin, as long as it could increases velocity it will be good for company. Leverage is a condition when companies use asset as debt collateral to have additional cash for funding value creating activities such as marketing expenses. This strategies will have negative effect on short terms performance but try to create a good long terms profit goals. In this case, marketing expenses also called as sunk cost by Memarista & Gestanti (2018), where a cost still have to be paid even the results is contrary to the expectation.

The importance of marketing spending for creating long term firm value is called as customer equity. Beyond the financial performance indicators in financial reports, investor as customer of financial reports need to monitor firm's performance with counting on their customer assets Wiesel, Skiera, & Villanueva (2008). As the implication, more non-financial indicators needed to analyze the successfulness of investment in marketing. This non-financial customer data indicators are such as number of customer before and after the marketing spending, the retention rate, new customer, lost customer, and lifetime customer. Other explanation that also important to justify marketing spending and performance are marketing innovation within company and the external pressure from market condition.

6. Conclusion, Limitations, and Suggestions

Conclusion

This research shows that marketing expenditures is moderating variable, but not mediating, on the effects of leverage on firm performance. Firms' debt level is having impact on financial performance directly and do not mediates by marketing expense. Marketing expenses do not has impact in financial performance, thus its interaction with leverage have negative effect on firm performance. Leverage have positive effect on returns on asset, hence when marketing expense is higher the relation become weaker. This is consistent with Resources advantage theory that tested whether there is relation between sources of company's cash inflow, marketing strategies, and financial performance.

Limitation and suggestions

There three main limitation of this research. First, sample distribution in this research is not normal. Future research can try to use another method to test not normal distribution samples such as partial least square. Second this research are performed robustness test by changing dependent variables from ROA into ROE. Further research can do another robustness check by change the proxy of independent variable. Another robustness test can performed by split sample into categories positive and negative performance. Third, this study also measure the relation between leverage, marketing expenses and performance in the short term. Further study can expand the statistical test for long term relations between these three variables, since the result here indicate that the marketing cost is not really good for short term performance.

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