

Profitability, Advertising Promotion and Government Support: Study in Tourism Corporate in Indonesia

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Abstract

This study aims to review the impact of advertising and promotion expenses on profitability especially tourism companies listed in Indonesia and also to analyze the impact of Government Support especially in program “Wonderful Indonesia” on tourism companies’ profitability. Indonesia has many beautiful places, culture and culinary and much more identic and ethnic, what are its can increase tourism industry in Indonesia?. The variables used for this study are based on some previous research such as Kaguri (2013) and Sucuachi & Cambarihan (2016), Cancino & Bonilla (2015), Low & Mohr (1999). The sample of this study is tourism company listed in Indonesia who has complete data in the range 2012-2016. Path analysis regression and Paired Test are used for data analysis. The results showed that advertising and promotion expense positive impact directly or non direct via revenue on profitability. Empirical results indicate that when the company paid the advertising and promotion expenses in according to their product and business, these can significantly increase revenue and also increase companies’ profitability although insignificant. These result can adopt by a company who has motivation for growth profitability. Government support by program “Wonderful Indonesia” in ending of the year 2014 has a correlation with profitability tourism corporate in Indonesia, there differences amount of profitability before and after this program.

Keywords: Profitability, Advertising Promotion, Government Support

1. Introduction

Indonesia as an archipelago country consists of 14,572 islands that provide exotic scenery for travelers from domestic as well as abroad. In addition, nature, scenic landscape & wildlife, culinary & wellness, arts, culture & heritage, recreation & leisure, and adventures for tourists to come on vacation to Indonesia. The wide range of natural resources and various beauty of Indonesia is one of the capital in the tourism business, the establishment of tourism service providers is growing serving tourists visit to enjoy the beauty of Indonesia. However, although natural resources are already available, companies need to also define strategies for the products and services produced to be known and used by customers, especially tourists. Although Indonesia has places of interest for tourism - beautiful inland areas, interesting cultural and historical ruins, beaches, nightlife and much more these countries fail to attract large numbers of foreign tourists. It is true that Indonesia may reach its target of welcoming 10 million foreign tourists by 2015.

Promotion is one part of the marketing mix that has activities to introduce products and services to the public in order to attract public interest to buy products and then become customers in the future. And advertising that is one part of the promotion activities directly related to the sale so that the impact on corporate profits and corporate value to be achieved. As a go public company, profitability of the entity becomes one of the attractions because it can increases firm value (Harnovinsah & Alamsyah, 2017) and also the public's attention both shareholders and stakeholders. Promotions increase revenue from targeted products from a marketing perspective. It is generally accepted that in the short run, promotions have a positive effect on revenue generation due to repeat purchases in direct response to the lowered prices (Mela, Gupta, & Lehmann, 1997; Pauwels, Silva-Risso, Srinivasan, & Hanssens, 2004; Ambler, Carpenter, Kumar, & Srivastava, 2004). Positive views on the effect of promotion on short-term earnings are based on the self-perception theory that consumers decide to buy, driven by their own promotional benefits, even though they have no fundamental preference for the product being promoted themselves (Dodson, Tybout, & Sternthal, 1978). Furthermore, behavioral learning theory confirms that promotions contribute to long-term revenue gains as well, since promotion enhances intimate relationships between consumers and products, thus establishing a positive and sustainable brand image (Rothschild & Gaidis, 1981).

The growth of the tourism industry in Indonesia is not only beneficial to companies engaged in this business, but also for the Government. Foreign exchange, consumption taxes and income taxes of tourism businesses will certainly increase state revenues. Branding Wonderful Indonesia launched by the Government at the end of the Year 2014 is a national tourism promotion to attract foreign tourists coming to Indonesia. Any policy taken by the Government will at least have an impact on business activities (Cancino & Bonilla, 2015; Ohlan, 2017) domestically and even abroad, either directly or indirectly including the tourism industry like minimize the risk (Nugroho, 2014). It is important for the Indonesian tourism industry to increase its contribution to gross domestic product (GDP) as this will trigger more foreign exchange earnings (as every foreign tourist spends an

average of between \$ 1,100 and USD \$ 1,200 per visit) and also provides employment opportunities (based on the latest data from the Central Bureau of Statistics, the country's unemployment rate reached 5.81% in February 2015). It is estimated that almost 9% of the total national workforce is employed in the tourism sector. Currently, Indonesia's tourism sector contributes to approximately 4% of the total economy. By 2019, the Government of Indonesia wants to double this figure to 8% of GDP, an ambitious target which implies that over the next 4 years, the number of visitors needs to be doubled to about 20 million. In order to achieve this target, the Government will focus on improving Indonesia's infrastructure (including information and communications technology infrastructure), access, health & hygiene and also enhancing online promotional campaigns (overseas). The government also revised the free visa access policy in 2015.

This study aims to determine and confirm the influence of promotion and advertising expenses to profit companies through revenue. In addition, the government's policy in branding "Wonderful Indonesia" is also interesting to be analyzed comparatively to the firm's firm's value before and after the program takes place. The study expects to provide unique insights for a thorough understanding of promotional effects in an integrated tourism and practical context.

2. Literature Review

2.1 Theoretical Framework

2.1.1. Public Policy Theory

Understanding public policy by government is in principle made or on the basis of broad policy. According to Ho (2000), the meaning of policy is the effort to achieve certain goals with specific goals and in a particular order. The government as the authority to manage the wheels of government and society including the companies that stand within it has the authority of duty to prosper the country, in addition to the needs of government budget also requires an income that is not small. Policies are taken with the aim of fulfilling it all, whether as fuel in the rotation of government wheels or to promote the economy of the people, especially in the Tourism Industry like India (Ohlan, 2017). It is one of the implementation policies that are hierarchically made at the level of Minister, Governor, Regent / Mayor in the form of Decree which regulates the work procedures and everything related to Human Resources.

In this study, government policy is support for increasing tourism in Indonesia program "Wonderful Indonesia" started at the end of the year 2014. In this program, the government of Indonesia promotes many beautiful places in the media (ex.internet, magazine, international newspaper and others) and exhibition in the other countries in the world.

2.1.2 Advertising Promotion

Advertising expenses are one part of promotional activities and corporate strategy that has a purpose in introducing the company's products as well as attract public interest to become consumers, further to improve the company's brand to be better-known public (Low & Mohr, 1999). Promotion as general is a corporate strategy for increasing revenue and profit by sending information about the product, discount, brochure, exhibition and another kind. Promotion not only helps companies to retain old customers through loyalty but also encourages consumers to change brands and make purchasing decisions more easily (Kim, Park & Jeong, 2004; Sun, 2005). As a result, with promotion as an effective marketing tool, companies can make consumers easier and increase sales. The promotion gives consumers different benefits dimensions, namely utilitarian and hedonic benefits (Chandon, Wansink, & Laurent, 2000). The utilitarian benefits give consumers the opportunity to experience high-quality products at discounted prices with reduced search and decision-making costs. That is, utilitarian benefits are instrumental and functional (Batra & Ahtola, 1991). On the other hand, the benefits of hedonic promotion are related to the emotions of joy and excitement (Chitturi, Raghunathan, & Mahajan, 2008).

2.1.3 Profitability

Company profit is one of the benchmarks of the success or performance of management in managing the company, and revenue is one part that impacts on corporate profits (Sucuahi & Cambarihan, 2016). Sucuahi & Cambarihan (2016) in his research found that profitability has a significant effect on the firm value that attracts public interest to invest in the Company. There have been many studies documenting the company's profitability (Nissim & Penman, 2001). Companies with a level of profitability farther from the previous period which showed stronger reversion (Fama & French, 2000). However, there is also significant persistence in income over time. Examination of data presented in Penman (1991) shows that the highest performance is measured by return on equity (ROE), Kaguri (2013) and Sucuahi & Cambarihan (2016) by return on asset (ROA).

2.2 Conceptual Framework and Hypothesis Development

Promotional effects can be explained by both short and long-term perspective. The argument of short-term promotional effects is based on self-perception theory stating that consumers may have the pleasure of shopping for intrinsic rewards through the purchase of promoted products or services at discounted prices (Schindler, 1992). Even if consumers have no actual preference for purchased products themselves, they may purchase

certain brands, caused by benefits from promotions (eg, discounted prices). There are several ways to measure promotional effects. In previous research, income (Heerde & Bijmolt, 2005) or sales volume and profits (Levedahl, 1986), is generally used as a proxy for measuring promotional performance. Among them, revenues generated from promotions are considered as the driving force for continuous promotion (Keh, Chu, & Xu, 2006). In particular, for tourist destinations, maintaining stable revenue growth is increasingly important, in keeping with the intense competition of emerging rivals. With a specific purpose, companies can issue advertising expenses to introduce their products to the public and then attract them to consumers. Promotion activities through advertising expenses are expected to increase the amount of revenue and impact on corporate profits. Keh, Chu, & Xu, (2006) in his research found that advertising expenses though have minimal influence on stock return but generate greater sales and profit and improve financial performance. Likewise with Darmadi (2013), Abdullahi & Dauda (2014), Rachman & Akhtar (2016), Mariana & Hatani (2015) which in their research found that the cost of promotion with one of the activities through advertising expenses has a strong relationship and impact on revenue and profitability.

H1. Advertising & Promotion Expenses impact on Profitability through Revenue

Through the Ministry of Tourism and Creative Economy, Indonesia promotes itself as a tourist destination for foreign tourists with the campaign "Wonderful Indonesia". It is important for the Government to invest in similar promotional campaigns to spread the positive image of Indonesia as most Western countries receive negative headline news from Indonesia (eg radical Islam, natural disasters such as tsunamis and volcanic eruptions), causing negative images not exactly from this country. It is also important for the authorities to create a magnetic brand of the country as a whole. Although the island of Bali has a strong brand and is very famous around the world, Indonesia as a whole does not have a brand like that. Branding Wonderful Indonesia since 2014 was launched by the Government with the aim to attract foreign tourists to come to Indonesia. With the policy, it is suspected earnings of tourism companies in Indonesia who have done promotion through advertising expenses. Cancino & Bonilla (2015) and Duy et al. (2015) found that government programs had an impact on business transactions in his country like a minimizing of the risk (Nugroho, 2014)

H2. Differences tourism companies' profitability before and after government policy.

3. Methodology

3.1 Population and Sample

The unit of analysis that became the population in this study were 25 companies belonging to the tourism subsector listed on the Indonesia Stock Exchange with the observation year in the range of 2012-2016. By purposive sampling method by eliminating company having incomplete data in relation with the research and also time span of observation, and eliminating company having outlier data there are 6 companies become sample, and with a span of 5 years then data that can be used is 30.

3.2 Operational Variable

Measurement of each variable in this study adopted previous research, the novelty of this research is to include moment branding Wonderful Indonesia which is government policy since 2014 in relation to research variable.

ROA used in measuring Profitability, that's adopted Kaguri (2013) and Sucuahi & Cambarihan (2016), where ROA is obtained from Net Profit: Total Assets. While Advertising & Promotion Expenses as Independent variable taken from the amount Log of advertising & promotion expenses in the year concerned. As an intervening variable, Log of Revenue uses the company's net sales data for 2012-2016.

So the model to know the influence of Advertising & Promotion Expenses to Profitability through Revenue according to the hypothesis is as follows:

$$\begin{aligned} \text{LnRevit} &= \beta_0 + \beta_1 \text{LnProAdvit} + \epsilon_{it} \\ \text{NPit} &= \beta_0 + \beta_1 \text{LnProAdvit} + \beta_2 \text{LnRevit} + \epsilon_{it} \\ \mu \text{NPit-} &\neq \mu \text{NPit+} \end{aligned}$$

3.3 Hypothesis Testing Method

The model used in this study using a path analysis, by test of normality, autocorrelation test, heteroscedasticity test, multicollinearity test before and then paired test to see the difference in the profitability of tourism company before and after Program of Wonderful Indonesia.

4. Result and Discussion

4.1 Descriptive Analysis

Table 1. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Ln_ProAdv (X)	30	7,0344	12,6361	9,858439	0,2758361
Ln_Revenue (Z)	30	11,9885	15,4013	13,944767	0,1683143
Profitability (Y)	30	0,0013	0,1156	0,047987	0,0047364

Table 1 explained that minimum advertising & promotion paid by a company during 2012 to 2016 is 7,0344 paid by PDES in 2015 with amount 11 billion and maximum is 12,6361 paid by FAST in 2016 with amount 307 billion by FAST in 2016. FAST has brand “KFC” the on of big fast food restaurant and the advertising there in every media like television. As a mean from the data can analyze that average of advertising and promotion expenses paid by the companies in the ranger 2012 – 2016 is 9,858439 with amount 56 billion and the amount is so fantastic, that’s meaning the advertising and promotion expenses are the expenses needed by the company in their business especially in the tourism industry.

From the table 1, also can seen that minimum of Ln_Revenue is 11,9885 and that is INPPs’ amount with revenue amount 160 billion in and maximum is 15,4013 that’s FASTs’ amount with revenue amount 4.883 billion in 2016 and mean of Ln_Revenue is 13,944767 with revenue amount is that is the amount from FAST in 2016 but the mean is 1.632 billion for range 2012 - 2016. Based on table 1 above, and analyze Promotion Advertising expenses and Revenue that’s can explain that highest of advertising and promotion is FASTs’ and also highest revenue is FASTs’, that is meaning advertising and promotion expenses have a correlation with revenue.

From the table 1, also can seen that minimum profitability of tourism companies in the year is 0,0013 and maximum are 0,1156 but the mean is 0,47987. The amount is meaning that some company in the bad situation in the range 2012 – 2016 because their ROA amount is low especially PANRs’ ROA in 2016 with amount 0,0013 but the others are so hight with ROA amount 0,1156 that’s FASTs’ in 2012 and as the average profitability of tourism company is enough good with amount 0,047987 and company can use the asset for their business.

4.2 Goodfit Analysis

Table 2. Goodfit Analysis

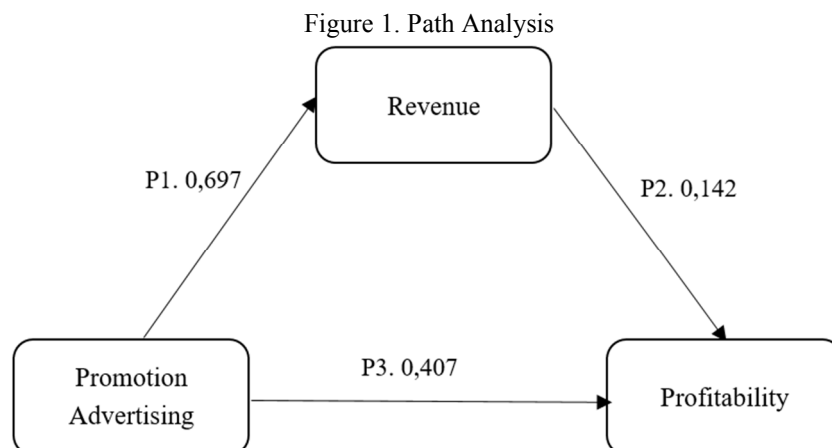
Test	LnProAdv	LnRev	Profitability
A. Normality Test	Normal		
Sig - Kolmogorov-Smirnov	0,200	0,183	0,152
Sig - Shapiro-Wilk	0,162	0,238	0,510
B. Autocorrelation Test	Free		
Durbin-Watson	1,901		
C. Heteroscedasticity Test	Free		
Sig - Coefficients	0,088	0,543	0,278
D. Multicollinearity Test	Free		
Std. Error - Coefficients	0,004	0,006	
Pearson Correlation	0,697	0,697	

Based on table 2 above about good fit analysis explained that data is good because normal, haven’t autocorrelation, haven’t heteroscedasticity and haven’t multicollinearity.

4.3 Regression Analysis

Table 3. Regression

Path Analysis	R2	beta	Sig	Note
ProAdv > Revenue	0,486	0,697	0,000	Positive Impact Significant
ProAdv > Profit	0,267	0,407	0,088	Positive Impact UnSignificant
Revenu > Profit		0,142	0,543	Positive Impact UnSignificant



Based on figure 1 and table 3, can explained that Advertising and Promotion Expenses significantly positive impact to Revenue directly 69,7% that is the meaning the expenses can increase the revenue so high, especially in the tourism industry that information by advertising can very significant impact to traveler know and intention to come and enjoy the services from company.

Furthermore that directly advertising and promotion insignificant positive impact on profitability 40,7% and also indirect insignificantly positive impact on profitability 9% by revenue. That is the meaning when the company paid the expense linked or unlinked by revenue, that can increase companies' profitability although insignificantly. The revenue amount will increase as like increase expenses the information of the product, price promotion or whatever strategic in line promotion and so it can increase companies' profitability actually. And the result is mean approval hypothesis 1. The result is confirm the result of the previous study by Eng & Keh (2007), Darmadi (2013) and Low & Mohr (1999).

4.4 Comparative Analysis

After path analysis regression promotion advertising impact to profitability directly or indirectly by revenue, furthermore analyzed paired test profitability of tourism company in Indonesia before and after government program "Wonderful Indonesia". These program published in end of year 2014 so during beginning 2015 to ending 2016 are be created as "after period" and beginning 2013 to ending 2014 are be created as "before period", so just 2 years period data before program and 2 years period data after program.

Table 4. Tests of Normality

	Kolmogorov-Smirnov ^a			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Before	,113	52	,095	,969	52	,192

a. Lilliefors Significance Correction

Because just variabel profitability analyzed paired test, normality test repeated just for completely companies data of profitability and the each amount is 26 datas for 13 companies in 2 years. The result is normal based on 0,095 as Kolmogorov-Smirnov amount or 0,192 as Shapiro-Wilk and each amount is bigger than 0,05.

Table 5. Paired Test

Pair 1	before – after	Paired Differences			t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean			
		0,017650	0,028049	0,005500	3,209	25	0,004

Based on table 4 above, the amount of Sig. (2 tailed) is 0,004 and that's meaning profitability in the tourism companies in Indonesia is different before and after Government Support especially the program "Wonderful Indonesia" and amount of 0,017650 in mean is the meaning that Government by the program can support to increase 0,017650 companies' profitability. These result of course, make us happy because Government program has success increase tourism industry by the profitability and make Indonesia knew by other countries in the world and the result confirms prior study from Cancino & Bonilla (2015) and Duy et al. (2015)

5. Conclusions and Limitations

Based on literature review and finding above, some conclusion found for a clear and simple explanation, as follows:

1. Advertising and Promotion expenses positively impact by direct to profitability or indirectly by revenue to profitability insignificantly.
2. There difference tourism companies' profitability before and after program "Wonderful Indonesia" as

Government Support.

Some limitations found by a researcher from this study and hopefully can make warning and explanation for future study, as follow:

1. Data on Promotion and Advertising measured together and better for measured each in next study.
2. Regression analysis is simple, better can make more regression in the future by add another variable.

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