Factors Affecting the Financial Structure Of Trading Firms In Samarinda

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Abstract

One of the expenditure problems faced by the trading firms is the one related to the financial balance. The financial balance of a company could be achieved if the company did not have to face financial obstacles as a result of the imbalance between the available capital and the required capital.

This research was aimed at investigating the simultaneously significant effects of the factors of asset structure, sales growth rate profitability and operating leverage on the financial structure of the trading firms in Samarinda for short-term and long-term sources and for self financial sources. It was also intended to find out which of the dominant factors of asset structure, sales growth rate, profitability and operating leverage had the most significant effect on the financial structure of the trading firms of Samarinda for a short-term, a long-term and self-financial sources (Networth).

The research result indicated that simultaneously the factors used in this research had a significant effect on both the short-term financial sources and self-financial sources. The most dominant factor which had the most significant effect on the short-term, long-term and self-financial sources was the factor of profitability. In the financial policy making process of the trading firms in Samarinda, there was tendency towards the packing order behavior. By taking into consideration the profit factor, the companies would try to cover their financial problem with their self-financial sources, particularly with their profit and their retained earnings. When their self capital source could not cover all their financial need, they would then consider their asset *structure, sales growth rate and their operating leverage in order to see whether it was still possible for the companies to cover their need by creating debts.*

Keywords: Financial structure, asset structure Trading firms, sales growth rate profitability, operating leverage

I. Introduction

1.1 Background of the Study

One of the problems of budgeting of the firms is the balance of financial structure. The balance can be reached if the firms, along their operation, do not have financial problems. In defining the sources of fund, the firms use a conservative financial structure, both the vertical and the horizontal one (Riyanto, 1996). The first provides ratio which should retained on the number of account payable and the networth. The latter provide a limit of ratio between the number of networth and the fix assets plus the reserve which must be met with the networth, the fund retained in the firm.

There are some factors influencing the determination of the financial structure: (1) organizational growth level, (2) sales stability, (3) industrial structure, (4) assets structure, (5) management attitude, and (6) loan-provider attitude.

Trading firms play a very important role in supporting Indonesian economy. In Samarinda, till 2000, it is recorded 981 trading firms. Of the number, 624 trading firms on goods and services, 83 distributors, and 274 reatailers.

Trading firms whose the characteristics of purchasing and reselling goods to meet their needs of fund resources also borrow money from other parties, banks and/or other financial institutions. The loans that they get from banks are short-term loans and/or long-term loans. Thus, the firms are required to spend the loans so efficiently and effectively that they could get high value from the loans. In this case the firms are frequently faced with the problems of financial structure which may be expected to bring forth great profitability.

1.2 Statement of the Problems

The problems of this study is stated as the following:

1. Are the assets structure, the sales growth, profitability, and operating leverage simultaneously affects the financial structure of the trading firms in Samarinda?
2. What are the dominant factors affecting the financial structure of trading firms in Samarinda?

1.3 Objectives of the Study

This study is aimed at:

1. analyzing the effect of the assets structure, the sales growth, profitability, and the operating leverage on the financial structure of the trading firms in Samarinda.
2. looking into the dominant factors affecting the financial factors of the trading firms in Samarinda.

2. Theoretical Framework

2.1 Heny Sulistyaningsih (2000). She conducted a research on factors affecting fund resources, such as the sales growth, reserves, profitability, and the operating leverage. The results reveal that all variables used in the research significantly infiuence the policy of selecting the capital structure.

2.2 Anjar Wibisono (2002). She conducted a research on factors affecting the capital structure, such as the sales growth, the assets structure, organizational growth, profitability and tax. The results reveal that those variables influence the capital structure of firms.

2.3 The Financial Structure. It is defined as the way how to spend the assets, and it is stated on the right side of a balance sheet. The financial structure refers to the comparison between all fund resources, such as loans (short-term and long-term) and the networth or equity (Weston and Copeland, 1997:19).

2.4 Some Factors analyzed in the Research

1. Asset Structure. The details of assets structure are classified based on the system of its liquidity (IAI, 1999:91). The essence of liquidity is the upper line, like cash, the most liquid assets. The assets structure is classified into: a) liquid assets, b) investment, c) fixed assets, d) intangible assets, and e) miscellaneous assets. The assets structure is the determination of the number allocated for each component. The asset structure is a ratio between liquid assets and the fixed assets of the firm and the structure of the assets is sated in the balance sheet.

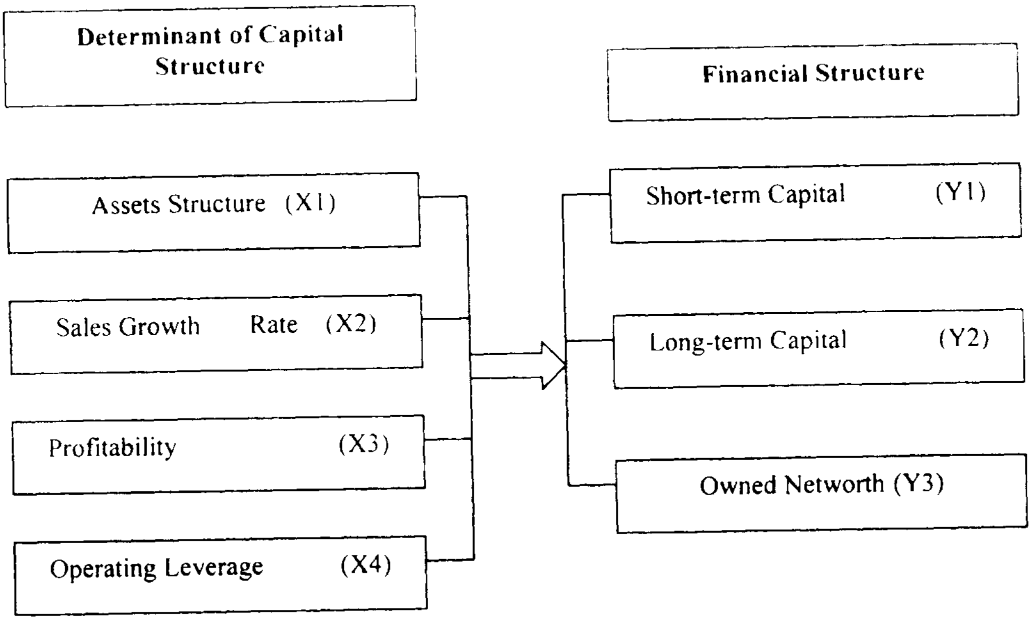
2. The Sales Growth Rate
   The sales growth rate is very important for the survival of firms. If the sales rate is getting worst, the firms are getting to be out of business. (Matz and Usry, 1998:205). In the financial context, sales may be viewed from side of planning and realization measured based on currency. From side of planning, it reflects a target which should be reached by the firms.

   The survival of firms depend on their ability in meeting the costs with returns they get. The good planning on costs and risks is inherent with the sales planning. The sales may be said as the right transfer of goods and services to pay for cash or account receivable (Sinaga and Widjajanto, 1991:122).
3. The Profitability
   Profitability is the ability of firms to get returns as a result of expenditures. There are three aspects should be considered in this case: the firms ability, revenues, and costs. Profitability refers to the firms ability in obtaining profit from sales, total asset, and networth. (Sartono, 2000:90).
4. Degree of Operating Leverage (DOL)
   When the firms are on permanent operation with fixed capital, they are said to use leverage. With operating leverage, the firms expect the sales rate to increase the profitability rate before tax. Multiplier effect of the result of spending the fixed operational costs on profit before interest and tax is called degree of operating leverage (DOL) (Sartono, 2000:345).

3. Methodology

3.1 The Conceptual Framework

The following is the conceptual framework of the study.



3.2 Hypotheses of the Study

Hypothesis 1: The structure assets, the sales growth, the profitability, and the operating leverage simultaneously affect the financial structure of the trading firms in Samarinda.

Hypothesis 2: Profitability dominantly affects the financial structure of the trading firms in Samarinda.

3.3 Population and Sampling

The population of this study is the trading firms located in Samarinda. The number of the sample is 15 trading firms formulated with the purposive sampling technique. The criteria of the sample are those of 5 till 7 years over operation and those whose records on business track.

This research was conducted for five years, from 1997 until 2001, and was done with the technique of gathering data of each variable as the base of implementation of the inferential statistical analysis in the form of multiple regression equation. The model of inferential analysis is used to look into relationship of independent variables. In testing the hypotheses, the researcher employed multiple linear regression analysis with the program of SPSS version 10.05 for Win Me.

4. Results

4.1 Descriptive Analysis

1. The Growth of Asset Structure (X1)

The ratio of the growth of asset structure is 7.32%. the highest growth of asset structure is reached by PT BJ amounting to 70.99% in 1999-2000. The average growth of asset structure of the lowest is reached by PT BJ (-30.40% in 2000-2001), and (-24.88% in 1997-1998), by CV BPR (-17.01% in 1997-1998).

2. The Sales Growth Rate (X2)

The average ratio of the sales growth of 15 firms in 1997-2001 is 6.35%. The highest sales growth is reached by PT JR (60.71% in 1999-2000). 19.56% is reached by UD SD. The lowest sales growth is reached by PT BJ (-22.50% in 1999-2000) and by PT SL (-18.58% in 1997-1998).

3. The Profitability Growth Rate (X3)

The average ratio of profitability growth in 1997-2001 is 40.09%.The highest rate is reached by PT BPR (533.44% in 1997-1998), by CV MW (480.60% in 1999-2000). The lowest rate is reached by PT BJ (-77.15% in 1997-1998) and by CV RU (-58.37% in 1998-1999).

4. The Growth of Operating Leverage (X4)

The average of the operating leverage growth in 1997-2001 is 20.89%. The highest rate is reached by PT BPR (404.18% in 1997-1998) and by UD SD (22.34% in 1998-1999). The lowest rate is reached by PT BJ (45.93% in 2000-2001) and by CV BPR (-42.34% in 1998-1999).

5. The Growth of Financial Structure (Y)

a) The growth of Short-term fund resources (Y1). The average ratio of the growth in 1997-2001 is 28.94%. The highest rate is reached by CV BPR (328.54% in 1998-1999), by CV MW (161% in 1997-1998). The lowest rate is reached by UD SD (67.87% in 1999-2000) and by PT DJ (-56.54% in 1998-1999). b) The growth of Long-term Fund Resources (Y2). The average of ratio of the growth is -17.27% in 1997-2001. The highest rate is reached by PT BJR is 42.08% in 1999-2000, 29.62% in 1998-1999. The lowest rate is reached by Toko IP (-75.18% in 1999-2000) and by UD SD (-68.57% in 1998-1999).

c) The Growth of Networth (Y3). The average ratio of the growth in 1997-2001 is 8.67%. The highest rate is reached by PT BJR (52.33% in 1997-1998) and by CV RU (53.87% in 1999-2000). The lowest rate is reached by CV KLS (-32.73% in 1998-1999) and by CV RU (-24.18% in 1997-1998).

4.2 Inferential Statistical Analysis

This analysis is aimed at getting the coefficient and regression with the equality of multiple linier regression.

1. The short-term funding resource.

On the level of significance 5%, it is found the score of X1 = 0.001, X2 = 0.003, X3 = 0.000, and X4 = 0.368. Three of those scores (X1, X2, and X3) are less than 5% (0.05), means that the influence is significant. The score of X4 is greater than 5%, means that the influence is not significant. Also, it is found that the score R is 0.895, means that the correlation between the dependent variables and the independent variables is strong.

2. The short-term of funding resource

On the level of significance 5%, it is found that the score of X1 = 0.69, X2 = 0.382, X3 = 0.892, and X4 = 0.204. Those scores are greater than 5% (0.05), means that the influence is not significant. Also, it is found that the score R is 0.582, means that the correlation between the dependent variables and the independent variables is not too strong.

3. The networth funding resource

On the level of significance 5%, it is found that the score of X1 = 0.608, X2 = 0.950, X3 = 0.021, and X4 = 0.164. Three of those scores (X1, X2, and X4) are greater than 5% (0.05), means that the influence is not significant. The score of X3 is less than 5%, means that the influence is significant. Also, it is found that the score R is 0.784, means that the correlation between the dependent variables and the independent variables is strong.

5. Discussions

The results of this study reveal that the trading firms in Samarinda which have asset structure, sales growth rate, profitability, and operating leverage tend to require fund resources from the short-term loans and the networth. It means that in making decision on funding, the trading firms in Samarinda tend to behave "packing order", by considering the profit factors, then the firms do with the networth. If it is not sufficient, based on the consideration of asset structure factor, sales growth rate, operating leverage, the trading firms still possibly meet their need of fund from the short-term loans.

The trading firms in Samarinda which have asset structure tend to require their funds from the short-term loans which have positive relations. The long-term loans have negative relations with asset structure, indicating that there is a tendency when the asset structure increase. The firms will minimize the long-term loans to avoid the risk of being out of business.

The measure of asset structure may be done by using total liquid asset and total firm asset based on consideration of the growth of firm asset structure between 70.18% - 84.51%. The increase of asset structure of the trading firms in Samarinda indicates that the trading firms are growing well. If it is related to the greater number of total assets, the fund required for operation tend to increase as well. It means that there is a tendency of using loans for daily operations. Thus, the asset structure of the firms significantly affects on financial structure. Such policy is dangerous if it is applied in such worse economic condition because the fixed cost is getting increased, in turn, it makes the firms be in serious fix, even it turns them to go bankrupt.

The results of this study reveal that the trading firms with high growth rate possibly take over the use of equity with loans. The trading firms with high growth rate do not possibly own sufficient internal fund for their operation.

The measure of sales growth rate may be undertaken by using sales growth ratio of the current year and the previous year. It means that the sales growth becomes not stable making management difficult in designing and planning financial aspects because the firms do not get guarantee of the possibly financial problems. It is getting worse if the operation is funded with loans. The firms had better retain the uncertain net income after tax, and minimize the fixed costs, such as loan-interest. It is expected that the financial risk can be minimized.

The trading firms in Samarinda which have good profitability rate tend to behave "packing order" in defining funding resource policy with the risk rate, retained earnings, debts, and owners' equity.

Related to the effect of the variables in this study, the findings reveal that the strength of the effect of independent variables on the dependent variables depends on the rate of regression coefficient of independent variables

of each. The model of the estimator of regression of financial structure consisting of the short-term funding resource and the networth could be used as the comparing objects in estimating financial structure in the trading firms in Samarinda for particular length of time, if the asset structure, the sales growth rate, the profitability rate, and the operating leverage is known.
Those financial structures are not the optimal ones, but those are the common ones happened in the trading firms in Samarinda.

This study is designed to look into how the factors of asset structure, sales growth rate, profitability, and operating leverage affect the decision making for financial structure of the trading firms in Samarinda. By understanding the model of the estimator regression equity of financial structure, such as the short-term funding resource, the long-term funding resource, and owned networth, the decision makers of the trading firms in Samarinda are expected to be able to easily analyze the decision they made regarding with spending the funds needed. It is necessary because the financial balance of the firms can be reached if they do not get serious problems of financing during the operation.

This study also discusses about the most dominant factors affecting the financial structure which is important in eliminating the doubtfulness of decision making on funding for the firms operation. The effective policy of getting fund resources and spending it is very important to get a maximum profitability rate. Such policy includes whether the investment is funded with owned networth, the short-term or the long-term loans or the combination of them. Generally, the trading firms in Samarinda performs with the average financial structure rate of 10.18%. It means that the daily operation is mostly funded with loans from financial institutions, the short-term and/or the long-term ones.

6. Conclusion

5.1 The independent variables: the asset structure, the sales growth rates, the profitability, and the operating leverage significantly affects the financial structure---the short-term funding resource and networth resources.

5.2 The most dominant factor which had the most significant effect on the short-term, long-term and self-financial sources (networth) was the factor of profitability. The higher the profitability rate, the higher the short-term funding resource (Y1). The result of statistical computation for profitability rate is 0.858. The operating leverage is the most dominant influence on the long-term funding resource. The resultof statistical computation for the operating leverage rate is 0.389. The rate of funding resource of networth is 0.645. It means that it maintains the networth position.

5.3 The coefficient of Adjusted R square between independent variables and dependent variables of the short-term funding resource is 0.721. The adjusted R square between independent variables and dependent variables of the networth funding resource is 0.460.

5.4 The trading firms in Samarinda tend to behave "packing order" in the decision making. Based on the profit consideration, the firms meet the need of fund from the networth. If the networth is not sufficient, the firms will meet the need of fund from the short-term loans based on the consideration of some factors, such as asset structure, sales growth rate, and operating leverage. The need of fund from the long-term loans is not contributed yet.

7. Suggestions

It is suggested that:

6.1 For the short-term loans (Y1), the firms should retain the financial structure they have for profitability, and for the long-term funding resource (2), they should consider the financial risk and keep the firms credibility.

6.2 The further researches discuss about some variables which are not involved in this study, such as liquidity, cash flow, the size of firms, the management attitude, and the degree of financial leverage (DFL) in determining the firms' resource of fund.

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