Research Paper

Effects of Capitalization Characteristics on Medium Enterprises' Financial Performance in South Sulawesi

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ABSTRACT:- Profitability is the business capacity of a medium enterprise or company in generating profit or gain. Own capital is originating from the company itself, while loan capital comes from external parties of companies which are temporary in nature and is a debt, and should be returned at a given time. Therefore, if medium enterprises are undercapitalized, it will inhibit the process of business operation, such as the inhibited purchase of goods and raw materials, delayed payment of wages and salaries, inhibited overhead costs payment, inhibited payment of accounts payable, and other short-term debts. The inhibited corporate operational processes will result in product sales and asset turnover and production costs that ultimately will have an impact in the corporate revenue and profit. The aim o this researcs are to examine the direct effect of own capital, the value of non-bank capital aid, the value of bank capital on financial performance of Medium enterprises and indirectly through financial administrative costs, asset turnover (ATO), and credit sales turnover (RTO), and to determine direct effect of financial administration and credit sales turnover (RTO) on Medium Enterprises financial performance and indirect effect through asset turnover (ATO). The research involved seven variables, namely: Own Equity (X1), Non-Bank Loan Capital (X2), Bank Loan Capital (X3), Costs of Financial Administration (Y1), Asset Turnover (Y2), Credit Sales Turnover (Y3) and South Sulawesi UM Performance (Y4). The result show that 1) own equity positively affect the financial performance of medium Enterprises but does not directly affect through the cost of financial administration, asset turnover, and credit sales turnover, 2) The value of non-bank financial aid directly affect positively on the financial performance of medium enterprises but does not indirectly affect through the cost of financial administration, asset turnover, and credit sales turnover, 3) The value of banking capital directly affect positively on business performance of medium enterprises but indirectly affect negatively through financial administration, asset turnover, and credit sales turnover, 4) cost of financial administration directly affect negatively the financial performance of medium enterprises and does not indirectly affect negatively through asset turnover, and 5) credit sales turnover indirectly affect negatively on financial performance of medium enterprises and does not indirectly affect positively through asset turnover.

Keywords:- Capitalization Characteristics, Medium Enterprises, Financial Performance, South Sulawesi

I. INTRODUCTION

Profitability is the business capacity of a medium enterprise or company in generating profit or gain. Meanwhile, what plays bigger role in the gain is the capital factor, including own capital and loan capital. Own capital is originating from the company itself, while loan capital comes from external parties of companies which are temporary in nature and is a debt, and should be returned at a given time. Therefore, if medium enterprises are undercapitalized, it will inhibit the process of business operation, such as the inhibited purchase of goods and raw materials, delayed payment of wages and salaries, inhibited overhead costs payment, inhibited payment of accounts payable, and other short-term debts. The inhibited corporate operational processes will result in product sales and asset turnover and production costs that ultimately will have an impact in the corporate revenue and profit.

According to Sulaiman (2004), SMEs having difficulties in business are amounted to 72.4 percent. Out of that number, those having capital difficulty is by 51.09 percent. Meanwhile, Rahayu (2005) states that this capital problem emerges due to the characteristics in most Medium Enterprises in Indonesia, among others; have not implemented their business with the principles of modern financial management, and asset limitations that

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can be used as warranties. Similarly, the work results of Lestari (2006) found the main problem of Medium enterprises is the capital and management. From the data and facts mentioned above, it can be stated that for the needs of Medium Enterprises capitalization, there are some problems encountered, namely: 1) limited access of Medium Enterprises to information and financial facilities provided by banks and non-banks, 2) complex banking procedures and requirements, thus the capital loan is not suitable in the quantity and time, and most banks still require collateral, 3) high interest rates is a heavy burden to Medium Enterprises (Hadinoto and Retnadi, 2007), 4) lack of training and development, particularly in financial management. The condition results Medium Enterprises become less than capable to reach financial credit provided by the government and private sector through banks and non-banks.

Growth and development of sustainable Medium Enterprises sector require empirical studies mainly on the characteristics of business capital, which is part of the financial management that may affect the profitability of the business, especially those engaged in manufacturing, trade, and services. Based on the characteristics of the capitalization (own capital, bank capital, and non-bank capital), it can be analyzed whether there is a positive or negative effect on the financial performance of Medium enterprises. Effects on the financial performance may be determined directly or indirectly through the costs of financial administration, asset turnover/ ATO, and receivable turnover/ RTO. The greater return on investment, the faster asset turnover, and shorter the sales turnover, it will result in expectation that financial performance will increase. Observing the issue of Medium Enterprises financial performance and its existence in encountering the challenges of regional and global competition, this research refers to the unit of analysis of the financial performance Medium Enterprises (FME) with a structural approach of financial management and business capital policy.

Based on the background above, the research objective was to examine the direct effect of own capital, the value of non-bank capital aid, the value of bank capital on financial performance of Medium enterprises and indirectly through financial administrative costs, asset turnover (ATO), and credit sales turnover (RTO), and to determine direct effect of financial administration and credit sales turnover (RTO) on Medium Enterprises financial performance and indirect effect through asset turnover (ATO).

II. CONCEPTUAL FRAMEWORK AND HYPOTHESES

Capitalization can be gained by Medium enterprises through the banking and non-banking. Bank is a financial institution that can act as a company of which activities are engaged in the financial sector, one of the activities is to collect and distribute funds to medium enterprises which need them to gain profitability. Besides, the capital rose by Medium Enterprises through non-bank, among others; pawnshops, venture, cooperative, state-owned company, insurance, BMT (Baitul Mal wattanwil), and other financial institutions. funding aid obtained from banks and non-banks need 5C requirements, i.e. character: considering character of UM employers in fulfilling their obligations, both short-term and long-term obligations, capability: viewing the UM company's ability to repay the capital aid, capacity: assessing the use of financial credit, collateral: providing guarantee both physical and non-physical, and condition: assessing the business prospect carried by UM in economic and political conditions in the present and future. These requirements apply to UM, similar to Large Business (UB) in any application of financial aid (loans) which is not met by most MW actors. Concrete example is presented by Wijono (2005: 94) is a bank providing one billion dollars credit to customers, with credit of one million dollar require the same operational costs, even small loan is more expensive if the customers are borrowing more small credit. It will clarify that the capital existence will be able to directly and indirectly affect the performance of Medium Enterprises measured by profitability gained.

Medium business receiving financial aid from various sources and has assets so as to capable of performing the activity in accordance with the business practiced. From the business activities, it is expected to accelerate the credit sales turnover and shorten the asset turnover and make financial administration costs become efficient, and will ultimately affect on increasing revenues. In other words, the existence of own equity and business capital aid from banks and non-bank can be used for working capital and investment capital directly or indirectly through the cost of financial administration, asset turnover, and credit sales turnover affect the financial performance of Medium enterprises. Financial performance of Medium Enterprises measured by profitability (net profit margin) is very dependent on how long the turnover of credit and assets sales as well as how efficiently the costs used in the acquisition of funds (Keown & Martin, et al., 2002). These three elements will provide satisfactory performance if supported by the presence of its own capital and capital aid from banks and non-banks which can be used for working capital and investment capital.
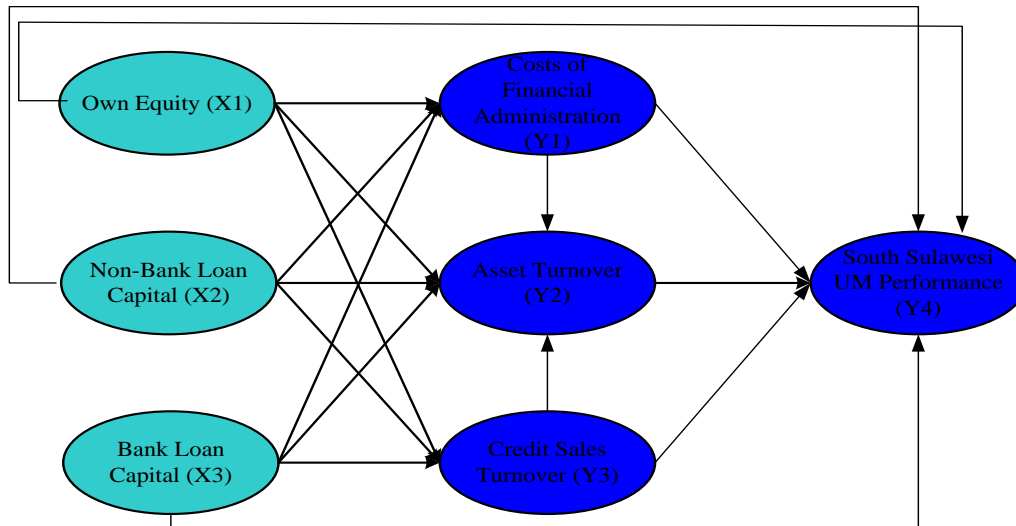
Figure 1. Diagram Framework Research Model

From the paradigms and ideas mentioned above, it can be stated that the characteristics of capital (own equity and the value of capital aid) affect directly and indirectly through the cost of financial administration, asset turnover, and credit sales turnover on the financial performance of medium enterprises in South Sulawesi.

III. RESEARCH METHODOLOGY

This research is located in the metropolitan cities of Makassar, Pare Pare, Bone, and Bantaeng. These four areas have been selected to represent South Sulawesi as Makassar and Pare Pare are cities having the second-largest port in South Sulawesi, the place where trade traffic between islands and countries. While Bantaeng and Bone Regency are the areas having a Medium Enterprises sector engaged in various types of businesses. The analysis technique in this research was Path Analysis. In accordance with the objectives that would like to be achieved, the research conducted can be categorized as an explanatory research, i.e. the research aimed to find an explanation on causal relationship or effects of the relationship between variables and other variables through hypothesis testing (Umar, 2004).

IV. RESULTS AND DISCUSSIONS

The research involved seven variables, namely: Own Equity (X1), Non-Bank Loan Capital (X2), Bank Loan Capital (X3), Costs of Financial Administration (Y1), Asset Turnover (Y2), Credit Sales Turnover (Y3) and South Sulawesi UM Performance (Y4). The first stage is the first equation of Path estimation in Path analysis. Table 1. is the calculation result of the first equation Path: From the R^2 value of 0.959 or 95.9%, it means that the cost of the Financial Administration (Y1) is affected 95.9% by Equity (X1), Non-Bank Loan Capital (X2) and Bank Loan Capital (X3), while the remaining 4.1% is affected by other factors.

Table 1. Result Of The First Equation Path

Independent Variables	Beta	t_{calc}	Sig t
Own Equity (X1)	**-0.120**	**-3.859**	**0.000**
Non-Bank Loan Capital (X2)	**0.422**	**9.648**	**0.000**
Bank Loan Capital (X3)	**0.682**	**19.065**	**0.000**
R^2 = 0.959			
Dependent Variables = Cost of Financial Administration (Y1)			

Table 1 shows that own Equity variable (X1), Non-Bank Loan Capital (X2) and Bank Loan Capital (X3) have p value of 0.000 <0.05, it can be concluded there is a significant effects between the Own Equity variable (X1), Non-Bank Capital Loan (X2) and Bank Capital Loan (X3) of Cost of Financial Administration (Y1). The coefficient is positively marked (Non-Bank Capital Loan (X2) and Bank Capital Loan (X3)) implies that there is a directly proportional relationship. It means that the higher the value of Non-Bank Capital Loan (X2) and Bank Capital Loan (X3) will affect the higher cost of the Financial Administration (Y1). Negatively marked coefficient (Own Equity (X1)) implies that there is an inversely proportional relationship. It means that the higher the value of Own Equity (X1) will affect more the lower cost of the Financial Administration (Y1).

The second stage is the estimation of the second equation path. Table 2 is the calculation result of the second equation Path: From the R^2 value of 0.026 or 2.6%, it means that the Asset Turnover (Y2) is affected by 2.6% of Own Equity (X1), Non-Bank Loan Capital (X2), Bank Capital Loan (X3) Cost of Financial Administrative (Y1) and Credit Sales Turnover (Y3), while the remaining 97.4% is affected by other factors.

Table 2. Result of the Second Equation Path

Independent Variables	Beta	t_{calc}	Sig t
Own Equity (X1)	-0.030	0.861	0.861
Non-Bank Loan Capital (X2)	-0.186	-0.576	0.566
Bank Loan Capital (X3)	0.034	0.085	0.933
Cost of Financial Administrative (Y1)	0.178	0.330	0.743
Credit Sales Turnover (Y3)	-0.097	-0.854	0.395
R^2 = 0.026 Dependent Variables = Asset Turnover (Y2)			

Table 2 shows that own Equity variable (X1), Non-Bank Loan Capital (X2) and Bank Loan Capital (X3) Cost of Financial Administration (Y1) and Credit Sales Turnover (Y1) have p value of >0.05, it can be concluded that a significant difference between Own Capital variable (X1), Non-Bank Loan Capital (X2), Bank Capital Loan (X3) and Cost of Financial Administration (Y1) and Credit Sales Turnover (Y3) will not affect the higher and lower Asset Turnover (Y2).

The third phase is Path estimation of third equation in path analysis. Table 3. is the result of the calculation of the third equation Path: From the R^2 value of 0.075 or 7.5% meaning that the Credit Sales Turnover (Y3) is affected 7.5% by Own Equity (X1), Non-Bank Loan Capital (X2) and Bank Loan Capital (X3), while the remaining 92.5% is affected by other factors.

Table 3. Result of the Third Equation Path

Independent Variables	Beta	t_{calc}	Sig t
Own Equity (X1)	-0.221	-1.503	0.137
Non-Bank Loan Capital (X2)	0.378	1.818	0.073
Bank Loan Capital (X3)	-0.379	-2.228	0.028
R^2 = 0.075 Dependent Variables = Credit Sales Turnover (Y3)			

Table 3 shows that Own Equity variable (X1) has a p value of 0.137> 0.05, Non-Bank Loan Capital (X2) has a value of 0.073 <0.10 and Bank Loan Capital (X3) has a value of 0.000 <0.05, it can be concluded a significant difference between Non-Bank Loan Capital variable (X2) and Bank Loan Capital (X3) of the Credit Sales Turnover (Y3). The positively marked coefficient on Non-Bank Loan Capital (X2) implies that there is a directly proportional relationship. It means that the higher the value of Non-Bank Loan Capital (X2) will affect the higher turnover Sales Credit (Y3). The negatively marked coefficient on Bank Capital Loan (X3) implies that there is an inversely proportional relationship. It means that the higher the value of Bank Capital Loan (X3) will affect in the lower Credit Sales turnover (Y3). Unlike own Equity variable (X1) that does not provide a significant effect on Credit Sales Turnover (Y3) thus the lower and higher Equity (X1), will not affect the level of Credit Sales Turnover (Y3).

The fourth stage is the estimation of fourth Path equation in Path analysis. Table 4.4 is the calculation results of fourth equation Path: From the R^2 value of 0896 or 89.6% means that the South Sulawesi UM Performance (Y4) is affected 89.6% by Own Equity (X1), Non-Bank Loan Capital (X2), Bank Loan Capital (X3), Cost of Financial Administration (Y1), Asset Turnover (Y2) and Credit Sales Turnover (Y3) while the remaining 10.4% is affected by other factors.

Table 4. Result of the Fourth Equation Path

Independent Variables	Beta	t_{calc}	Sig t
Own Equity (X1)	0.248	4.460	0.000
Non-Bank Loan Capital (X2)	0.630	4.775	0.000
Bank Loan Capital (X3)	0.250	2.355	0.021
Cost of Financial Administration (Y1)	-0.109	-0.615	0.540
Asset Turnover (Y2)	0.239	6.717	0.000
Credit Sales Turnover (Y3)	-0.023	-0.619	0.538
$R^2 = 0.896$ Dependent Variables = South Sulawesi UM Performance (Y4)			

Table 4 shows that the Equity variable (X1), Non-Bank Loan Capital (X2) and Bank Loan Capital (X3) and Asset Turnover (Y2) have a p value of <0.05, thus it can be concluded there is a significant relationship between own Equity variable(X1), Non-Bank Capital Loan (X2), Bank Capital Loan (X3) and Asset Turnover (Y2) on South Sulawesi UM performance (Y4). The positively marked coefficient implies that there is a directly proportional relationship. It means that the higher the value Equity (X1), Non-Bank Loan Capital (X2) and Bank Loan Capital (X3) Asset Turnover (Y2) will affect the higher South Sulawesi UM Performance (Y4). Unlike the case with the Financial Administration Fee (Y1) and Credit Sales Turnover (Y3) having p value of > 0.05, thus it can be concluded there is no significant relationship between the variables of Cost of Financial Administration (Y1) and Credit Sales Turnover (Y3) on South Sulawesi UM Performance (Y4). It means that the higher and lower the Financial Administration Fee (Y1) and Credit Sales Turnover (Y3) will not affect the lower and higher performance of South Sulawesi UM (Y4).

From the four equations of path analysis, the description results of overall path analysis are obtained as follows (red line states insignificant relationship, black line expresses significant relationship):
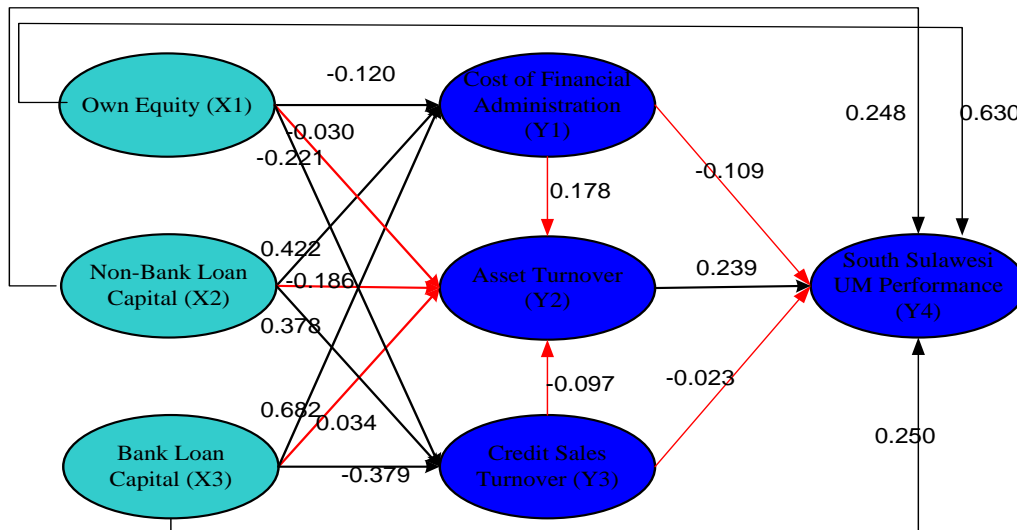

Figure 2. Overall Path Analysis Result.

To determine the suitability of the model Total coefficient of determination (R2total) result is presented. From the causal relationships between variables in the Path diagram, a total coefficient of determination of 0,99.6 is obtained or the information contained in the data of 99.6% can be explained by path model. Referring to guidelines of Hair and Ringle (2011), the model obtained has exceeded 75%, which includes the good model category. From the results of the path analysis, it has been suitable (fulfilling goodness of fit). From the results of Figure 2, it shows that Own Equity (X1), Non-Bank Loan Capital (X2), Bank Loan Capital (X3) and Credit Sales Turnover (Y3) directly affect the South Sulawesi UM performance (Y4).

V. CONCLUSIONS AND SUGGESTIONS

The conclusions of this research are; 1) own equity positively affect the financial performance of medium Enterprises but does not directly affect through the cost of financial administration, asset turnover, and credit sales turnover, 2) The value of non-bank financial aid directly affect positively on the financial performance of medium enterprises but does not indirectly affect through the cost of financial administration,

asset turnover, and credit sales turnover, 3) The value of banking capital directly affect positively on business performance of medium enterprises but indirectly affect negatively through financial administration, asset turnover, and credit sales turnover, 4) cost of financial administration directly affect negatively the financial performance of medium enterprises and does not indirectly affect negatively through asset turnover, and 5) credit sales turnover indirectly affect negatively on financial performance of medium enterprises and does not indirectly affect positively through asset turnover.

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