Effects of Capital Management on Business Performance of Small And Medium Enterprises In Restaurant Sectors

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Abstract: This study aims at examining and analyzing the direct and indirect effects of the sources and capital use on the business scale and business performance. The design of this study was survey method in which data collection was a cross-section through a questionnaire. The samples of this study were determined using simple random sampling in which the number of the samples was 150 owners or managers of SMEs Restaurant. The data were analyzed using Structural Equation Modeling (SEM) in the hypothesis testing with support Analysis Moment of Structure (AMOS) Ver.20. The results of this research provide evidence that the source of capital has a negative and significant impact on the business scale. The use of capital has a positive and significant effect on the business scale. The use of capital has a negative and significant effect on business performance. In addition, the business scale has a negative and insignificant effect on business performance. Besides that, it is found that the source of capital has a positive and insignificant impact on business performance through business scale. Meanwhile, the use of capital has an adverse and insignificant effect on business performance through business scale. The practical implications of this study provide evidence that increased knowledge and understanding of the owner or manager in improving business performance can be performed directly without the support of business scale. The limitation of this study is in sample sizes which are only using restaurant owners or managers of SMEs in Makassar so that it limits the generalizability of research findings. The originality of this study provides the basis for the development configuration modeling using multivariate analysis and conceptual models that prove the influence of capital resources and capital to increase business performance by incorporating business scale as mediator variables.

Keywords: Capital Source, Capital Use, Business Scale, Business Performance

Date of Submission: 22-02-2018
Date of acceptance: 05-03-2018

I. Introduction

Restaurant growth as a taxpayer in Makassar and taxpayers from 2012 to 2016 continues to grow every year. Therefore, it can be concluded that the role of restaurant is crucial in terms of regional revenue, where the restaurant tax is one source of local revenue that contributes 30% to support the development of Makassar in the form of tourism object revitalization and accessibility (infrastructure) so that can increase the real sector in Makassar (PHRI). Efforts to empower SMEs are becoming increasingly critical regarding the environmental changes of a global business environment which are becoming more dramatic so that SMEs are required to achieve a competitive advantage that can maintain its existence. In addition, competitiveness which is still relatively low and vulnerable to the changes in the business environment is increasingly open and uncertain. In deciding to use the debt, the company must pay attention to the balance between the capital itself and the outside capital to be used. If the use of external sources of funds is less than the capital itself, then the use of external capital is feasible to use. However, if the use of outside capital is greater than the capital itself, then the use of outside capital is not feasible to use [1].

The development of restaurant business both on a small scale and in the medium scale requires capital to finance operational activities that will be used at any time. Therefore, funds in the form of cash are required. However, the funds must be taken into account and considered to finance all these expenditures whether to use internal capital or loan capital. In fact, not all entrepreneurs have enough capital to open a business, especially a restaurant business because this type of business requires a large initial capital mainly for providing location or building, equipment needed by a restaurant business to serve customers.
Due to insufficient capital then they use loan capital from outside or third parties (not from Bank) in which burden of borrowing cost has higher interest expense than from Bank. For early start-up entrepreneurs, it is very difficult to obtain loans from the Bank due to various requirements that are difficult to fulfill, especially the ownership of new individual businesses operating. Empirical evidence indicates that the firm's capital structure is an important factor in the financial performance of the Company, and vice versa [2]. The Influence of Capital Structure on Financial performance showed a significant positive result. It suggests that firms are more profitable if they are more dependent on debt financing as the main funding option [3].

II. Literature Review

2.1. Business Performance

The performance of a company is crucial in the development of the company. A company aims to survive, to make benefit and to grow. These goals can be achieved if the company has a good performance. Performance of the company can be seen from the level of sales, the rate of profit, return on capital, the level of turnover and market share which was achieved [4].

Performance is a multidimensional concept, and the relationship between entrepreneurial orientation and performance can depend on the indicators used to access performance [5]. Business performance refers to the level of achievements of the company within a certain period. The variable in this study was developed by [6], represented by growth venture consisting of sales growth and profit growth effort.

Measuring company performance is conducted to know the results achieved by the company in a certain period, where the performance criteria should be able to be used as a guide for companies in taking operational decisions. Therefore, strategy goals become flexible, easy to implement, timely, and understandable by all levels of management [7].

2.2. Venture Capital

Business capital is a balance sheet of a company that uses concrete capital and abstract capital. Concrete capital is intended as active capital while abstract capital is intended as a passive capital. Equity is the owner's right to the company's assets which are net worth (total assets fewer liabilities). Equity consists of owner's deposit, residual retained earnings and others [1].

Sources of capital which deal with its nature can be divided into two, namely: internal sources, and foreign capital debt. Internal sources of capital or funds which are established or have been produced by the company are retained net profit and depreciation. Foreign capital or debt is capital derived from outside the company which is temporarily used in the company. For the concerned company, the capital is a debt which in turn has to be paid back. In principle, in running the business, the role of working capital is crucial [1].

2.3. Capital Structure

The financial structure is the way in which firms finance their assets, and this can be seen on all the right-hand side of the balance sheet consisting of short-term debt, long-term debt, and shareholder capital. Meanwhile, the company's capital structure is permanent financing consisting of long-term debt, preferred stock, and shareholder capital. Thus, the capital structure of an enterprise is only a part of its financial structure [8].

In the capital structure, short-term debt is not taken into account because this type of debt is generally spontaneous. It means it can change according to the evolution in sales level. Meanwhile, long-term debt is fixed for a period of relatively long time (usually more than one year) so that its existence needs to be thought of by the financial manager of the company [9]. Therefore, in the funding decision, the capital structure consists only of long-term debt and equity in financing the business activities of the company.

The capital structure itself usually refers to how a company manages its funding for its assets through a combination of equity, debt, as well as through hybrid securities. The decision of capital structure or funding which is conducted improperly and inaccurately will cause high capital cost so that it will affect the profitability of the company. The cost of capital is the cost to be borne by the companies to obtain external financing [10].

Pecking Order Theory (POT) explains that companies tend to use internal funding sources (retained earnings) in advance. The sources are from retained earnings and depreciation rather than using external funds (loans, shares). Debt which is an external funding source is only used by the company if it does not have enough insufficient internal funds. Prioritizing the use of internal funds does not bear the cost of issuance, and it is considered the cheapest cost. If external funds are needed, then companies will be more likely to use debt than equity [11].

The use of funds for the short term concerning the active expenditure is the use of funds owed in the amount of working capital embedded in current assets. The current assets consist of cash, accounts receivable,
securities, and inventory. Therefore, it can be concluded that the current asset is a property owned by a company that at any time can be converted into money within the period of turnover of operations or in other words current assets is a wealth of companies with high liquidity level.

Usually, the liquidity of a company's wealth is seen in the current asset structure listed on the company's balance sheet where the wealth at the top of the list is the most liquid (the fastest to be converted into cash). Debt is all financial liabilities of the company to other parties that have not been fulfilled, where the debt is a source of funds or capital of companies derived from creditors ", while" debt is an obligation to move property or provide services in the future [12].

Long-term debt is mainly used to finance the expansion or modernization of the company because the capital requirements for these purposes include a large amount. The longer the loan age drawn is better, because there will be a longer opportunity to earn cash inflows, which means there will be a greater ability to repay the debt. The shorter the credit age, the greater the risk of not being able to repay the debt is. It is because there is less chance to raise funds to repay the debt [1].

2.4. Scale Enterprises

The definition of micro, small and medium enterprises as stipulated in the Law of the Republic of Indonesia Number 20 the year 2008 About Micro, Small and Medium Enterprises is divided into four. First, micro business is productive business owned by individual and/or individual business entity fulfilling the criteria of Micro Business as regulated in this Law. Second, small-scale business is a stand-alone productive economic enterprise, carried out by an individual or business entity that is not a subsidiary or not a branch of a company owned, controlled, or becomes part of either a direct or indirect business of medium or large size business which meet the criteria of small business as referred to in this Law. Third, medium-sized enterprises shall be independent, productive economic enterprises carried out by an individual or business entity which is not a subsidiary or a branch of a company owned, controlled, either directly or indirectly with a small or large-scale business in which the amount net worth or annual sales proceeds as provided in this Law. Four, large enterprises shall be productive economic enterprises undertaken by a business entity in which net worth is a greater annual sale of medium enterprises, including national or private state enterprises, joint ventures and foreign businesses engaged in economic activity in Indonesia.

III. Material And Methods

This study was explanatory research, which aims at explaining the causal relationship between variables through hypothesis testing. It is also to obtain the accurate testing to draw conclusions that are causal between variables, and then alternative actions are chosen [13]. Structural Equation Modeling through AMOS was used as a program to analyze the data. The population in this study is 240 SME restaurants in Makassar. The sampling technique is conducted randomly and proportionally to each SME in Makassar which is called proportional random sampling. Then the calculation of sample is performed by using Slovin Formulation at 5% precision level so that the sample size which was obtained was 150 SMEs restaurant in Makassar.

IV. Results And Discussion

4.1. The Results of Feasibility Test for Structural Model

The results of testing the effect of capital resources on the business scale can be evidenced by the standardized regression weight estimated value of -0.158 with a negative direction. The coefficient of effect which is negative means that the provision of a good source of capital tends to lower or reduce the value of high business scale. Then, it can be proven with the value of the critical ratio (cr) = -2.108 <2.00 (t critical) and a probability value of 0.035 < α 0.05. The results of hypothesis testing prove that the source of capital has a negative and significant effect on the scale of SMEs Restaurant business in Makassar. It can be concluded that the increase of capital source is in the opposite direction (negative), but its effect on the high scale business scale is real.

Empirically, it can be explained that the negative and significant effect of the source of capital on the scale of business is caused by the allocation (utilization) of capital sources based on the level of business needs shown through the source of capital which can increase turnover of business venture proved to lower the business scale significantly. That SMEs Restaurant business will be difficult to develop due to the low contribution of government and banking and other financial resources in advancing SMEs.

The results of this study support the theory of pecking order Theory in which this theory outlines that the sequence of sources of funds that should be used is retained earnings, debt, and the issuance of shares. In
addition, this theory also states that there is a relationship between the use of debt, taxes, and the cost of bankruptcy due to the decision of the capital structure established by the company [14].

This study supports the results of previous studies which found that the market value resulted in the level of risk as part of the increase in debt and the increased use of debt [15]. The difficulty of small and medium enterprises (SMEs) to obtain financing from financial institutions is due to not being able to meet the requirements of financial institutions such as collateral [16]. This result also supports the pecking order theory that there is not an optimal leverage for the company [17]. Managers must reduce dependence on long-term debt as a source of financing.

4.2. The Effect of Capital Use on Business Scale

The results of testing the effect of the use of capital on the business scale can be evidenced by the standardized regression weight estimate value of 1.006 with a positive direction.

The positive coefficient means that the proper use of capital which tends to increase the value of the business scale is high. Then, it can be proven by the value of the critical ratio (cr) = 9.698 > 2.00 (t critical) and a probability value of 0.035 < α 0.05. The results of hypothesis testing prove that the use of capital has a positive and significant effect on the scale of SMEs Restaurant business in Makassar. It can be concluded that the increased use of capital to high direction has the same direction and real effect on high business scale.

Field facts provide evidence that capital sourced from non-bank financial institutions are used by the owner or manager of restaurant to replace their operational equipment such as replacements on tables and chairs as well as lay out restaurant room which is arranged in such a way. Therefore, it results in the convenience of the visitors to the restaurant that is able to make them sit for long while enjoying dishes and beverages offered by the restaurant.

The results of this study support Riyanto's statement [1] that the optimal capital structure is the capital structure that can minimize the cost of using the overall capital or the average cost, and thereby it can maximize the value of the firm. Optimal capital structure can be interpreted also as a balance between risk and returns so that it can maximize stock prices. The company's financial structure consists of all debts of short-term debt, long-term debt, and own capital used by the company to meet its funding or spending needs. Therefore, in the funding decision, the capital structure only consists of long-term debt and equity in financing the business activities of the company.

The results of this study also supports some of the research findings conducted by Ahmad, Z. et al. (2012) that the short-term debt (STD) and total debt (TD) have a significant relationship with return on assets (ROA). Manager should reduce reliance on long-term debt as a source of financing [17]. SMEs are a means to create jobs to reduce poverty [18].

The important factor of capital structure policy is financial risk, profitability, fund availability, productivity, liquidity, operational risk, rate of growth, time, corporate tax, the stability of sales and investment which affect the value of the company [19].

4.3. The Effect of Capital Resources on the Business Performance

The effect of capital resources on business performance can be demonstrated by standardized regression weight estimate value of 0.969 with a positive direction. The positive coefficient means that a good source of capital tends to improve the performance of SMEs Restaurant business in Makassar to the high direction. Then, it can be proven by the value of the critical ratio (cr) = 5.540 > 2.00 (t critical) and a probability value of 0.000 < α 0.05. The test results prove that the source of capital has a positive and significant impact on the performance of SMEs restaurant business in Makassar. It can be concluded that the source of capital which is effective has a positive and real direction toward the improvement of business performance so that it can be supported by empirical fact.

Empirically, it can be explained that the positive and insignificant effect of capital sources on business performance is due to the ability of entrepreneurs to dare to take action for every possible risk faced in achieving business goals. There are some conditions that are full of uncertainties and risks so that entrepreneurs have a high ability to see opportunities and creatively in utilizing the resources it has so that it can give a real impact on the creation of high business performance.

This study is in line with the findings of [15], that the company's financial performance is significantly influenced by the capital structure. Short-term debt (STD) and total debt (TD) have a significant relationship with return on assets (ROA), and return on equity (ROE) has a significant effect on the level of debt [20].

This research results supports the research findings which prove that the sources of capital in the form of cash and additional loan capital affect the performance of financial and non-financial of SMEs [16]. There is a positive and significant influence between capital structure and financial performance [21].
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external factors greatly affect the performance of the organization. Two of the most widely used performance measurement systems are personnel performance and customer satisfaction. There is a positive relationship between internal factors and organizational performance. The correlation coefficient between two variables is 0.640, and it indicates that there is a positive relationship between internal factors and high performance [22].

4.4. The Influence of the Use of Capital on Business Performance

The influence of the use of capital to business performance can be demonstrated by standardized regression weight estimate value that is -0.754 with a negative direction. The negative coefficient means that the use of good capital tends to improve high business performance. Then, it can be proven by the value of the critical ratio (cr) = -2.672 <2.00 (t critical) and a probability value of 0.008 < α 0.05. The results of hypothesis testing prove that the use of capital has a negative and significant effect on the performance of SMEs Restaurant business in Makassar supported by empirical facts.

Empirically, it can be explained that the positive and significant influence of capital use on business performance is caused by the high ability of entrepreneurs to always use their capital well. In addition, based on the virtue principle, entrepreneurs see the most important conditions first when they use capital so that when they see business opportunities they immediately take the risk by adding similar business activities to some areas or locations that they think have high market opportunities. The braveness of SME entrepreneurs of restaurants in Makassar to take business risks became the main trigger of the significant effect of capital use on business performance.

The findings of this study support the statement revealed by [23], that when a company uses debt, the capital cost would be at the expense of the interest charged by the lender for the lender while there will be the opportunity cost of the funds used. High capital cost indicates that the managers of the company do not make capital structure decisions or financing decisions which is accurate so that it affects the profitability that is the low profitability of the company which can threaten the company's financial position.

This study rejected the findings of previous research that the capital structure related to negative and not significant to the market value. It also increases the level of risk as part of the increase in debt in the capital mix, and increasing use of debt in the mix of capital will lead to the level of the increasing company's risk due to the cost of debt remains. It is even revealed that there is no significant effect of capital structure, asset turnover and tangibility assets on the financial performance of SMEs [17].

4.5. The Influence of Business Scale on Business Performance

The influence of business scale on business performance can be demonstrated by standardized regression weight estimate value of -0.137 with a negative direction. The negative coefficient means that the business scale which is at the middle level tends to degrade business performance. The, it can be proven by the value of the critical ratio (cr) = -0.631 <2.00 (t critical) and a probability value of 0.538 > α 0.05. The result of hypothesis testing proves that business scale has negative and insignificant effect on business performance. It can be concluded that the business scale is in the opposite direction and unreal effort to improve the high business performance so that the proposed hypothesis is not supported by the empirical facts.

Empirically, the negative and insignificant effect of the business performance on the business scale is because the assets owned by SMEs restaurants is incapable to encourage SMEs entrepreneurs to manage optimal financial performance evidenced by the low achievement of SMEs profit annually. The results of this study support the study conducted by [24] that the scale of business has no effect on financial performance. Greater growth opportunities will have a capital structure that can be used to develop the business (Chen and Chen, 2011). There is no significant difference with the impact of financial leverage between high financial leverage firms and low financial leverage firms on firm performance. That there is a negative and significant relationship between high financial leverage (high scale) and low financial leverage (low scale) to financial performance [25].

4.6. The Effect of Capital Resources on Business Performance through Business Scale

Testing the sixth hypothesis in terms of the influence of capital resources on business performance through business scale can be proved by the value of the test, as follows:

Table 1. Testing the effect of capital sources (X₁) through the business scale (Y₁) toward the business performance (Y₂)

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The table shows that the value of Sobel test is 0.60304721 with the positive direction. The positive coefficient means that a good source of capital tends to improve business performance in a high direction with the support of business scale. Then, it can be proven by a probability value (p-value) of 0.546> 0.05. These results provide evidence that the source of capital has a positive and insignificant effect on business performance through business scale so that the proposed sixth hypothesis is not proven or not supported by empirical facts. These results explain that without the support of the business scale, the capital resources can improve business performance. Business scale in this study serves not as a mediating variable because, in the direct effect, scale businesses cannot improve business performance.

4.7. The Effect of Capital Use on Business Performance through Business Scale

The testing of the seventh hypothesis in terms of the influence of capital use on business performance through business scale can be proved by the value of the test, as follows:

The table shows that the Sobel test value is -0.62830308 with the negative direction. The negative coefficient means that high capital use tends to lower the business performance in a low direction with the support of business scale. Then, it can be proven by the value of the probability value (p-value) of 0.529> 0.05. The results provide evidence that the use of capital has a negative and insignificant effect on business performance through business scale so that the proposed seventh hypothesis is neither proven nor supported by empirical facts. These results explain that without the support of business scale, the use of capital can improve business performance. Business scale in this study serves not as a mediating variable because the influence of the direct effect of businesses scale cannot improve business performance.

V. Conclusion

Increasing the source of capital is in the opposite direction (negative), but it has the real effect on the high scale business scale. The main source of business financing is originated from internal sources. It means that the allocation (utilization) of capital sources is based on the level of business needs indicated through the source of capital which can increase turnover of business venture proved to reduce or lower the business scale significantly. Restaurant business will be difficult to develop due to the low contribution of government and banking and other financial resources in advancing SMEs. Increasing the use of capital is in the same direction of high direction, and it has a real effect on the high scale business scale. Capital derived from nonbank financial institutions is used by the owners or managers of restaurant to replace their operational equipment such as replacements on tables and chairs as well as lay out restaurant spaces which are arranged in such a way Therefore, it can result in the convenience of restaurant visitors, and in the end, it can make them sit for a long time while enjoying dishes and beverages offered. Increasing the source of capital is in the same and effective direction (positive), and it is real to the improvement of business performance. The ability of entrepreneurs to dare to take every possible risk is faced in achieving business goals with full conditions of uncertainty, and the risk owned by the entrepreneur has a high ability to see opportunities and creatively exploits its resources in order to provide a real impact on the creation of high business performance.
The increasing of the intensity of the use of capital resulted in a decrease in business performance. This condition is caused by the high ability of entrepreneurs always to use capital well and based on the principles of virtue. The entrepreneurs look at the most critical prerequisite first when they use the capital so that when they see a business opportunity, they soon took the risk by increasing the activity of a similar business in some areas or locations which have high market opportunities. There is a braveness of the restaurant entrepreneurs in Makassar to take business risks. The low business scale affects the business performance. The business scale is in the opposite direction and has an insignificant effect on high business performance improvement. Assets owned by restaurants are incapable of encouraging the entrepreneurs to manage optimal financial performance evidenced by the low achievement of the profit annually. The effective sources of capital are not able to improve their business performance through business scale. Without the support of the business scale, the capital resources can improve business performance. Business scale in this study serves not as a mediating variable because, in the direct effect, the businesses scale is not able to improve their business performance.

The owners or managers of restaurants in Makassar should make a paradigm shift and how to work in the use of capital resources that is good. An effective source of capital is derived from the sequential internal realized through profit and equity. Effective use of capital depreciation can be realized by expanding the business by using short-term capital, purchasing of assets using short-term capital, the use of short-term capital to the needs of the operational costs, and the use of medium-term capital for business financing. Increasing sales volumes can realize business scale development, and it can affect the improvement the restaurant assets in Makassar. The improvement of business performance can be conducted by giving priority to the creation of nonfinancial performance which is high. With the high performance of nonfinancial, then gradually it will be followed by a high increase in financial performance. The importance of recording the accountability of the financial statements which is effective can be performed through increasing the understanding and knowledge of financial management. The government's role is very important in promoting SME business through intense training and this training is conducted continuously so that entrepreneurs have sufficient ability to implement its business activity which in turn can improve the business performance of SMEs. The banks should place the entrepreneurs as a partner not only as customers. In addition, business activities conducted by SMEs in which most of the capital is obtained through credit can be monitoring well and can provide solutions to the obstacles faced by SMEs.

References


