The Effect of Firm Size, Sales, Age of Receivables on Financial Performance at Automotive Companies Listed at the Indonesian Stock Exchange

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Abstract: The global financial crisis that lasted until early 2010 and the trade war between China and United Stated of America have brought the effect to the slow down of Indonesian economic. The research aims at studying the effect of firm size, sales, age of accounts receivables on financial performance at the automotive companies that have been listing at the Indonesian stock exchange, partially and simultaneously. This study has used descriptive method. The study has used time series data of the period of 2014-2017 which is expressed in yearly data. The analysis tool of the study is Multiple Regression Analysis. The results showed that simultaneously and partially, firm size, sales, age of accounts receivables have significantly effected the financial performance of the automotive companies. The result of the coefficient of determination was 98,8 percent. The remaining 1.2% has been effected by other factors that have not been included in this study.

1 INTRODUCTION

The objective of the firm is to make profit and to increase the wealth of the shareholders. The managers try to optimize the use of the resources of the company by planning, implementing and controlling the operation of the company. The task of the managers in finance is to manage the assets of the company, to select the best funding option for the company and to invest the asset of the company. The company can improve the performance through the good management in the accounts receivables. One of the tools to manage the accounts receivables is to generate the ageing of receivables schedule. The ageing of receivables can give the information about the long overdue debt, so that the company can make an intensive collection from the companies. If the companies can reduce the bad debt collection, then the companies can increase the financial performance.

The second factor to increase the financial performance in this research is the sales. If the companies can increase the sales of the company, while the expenses are stable, therefore the companies can increase their performance generally, and their financial performance specifically. However, on the other circumstances, the increase in sales, can decrease the profit of the company. This can happen if the company's sales are in credit, and the bad debt is increase too. Today, the world has been facing with the trade war between China and United States. The trade war between these super power countries have brought impact to other countries in terms of currency fluctuation, sales, interest rates, competition and other factors. Sales of the companies have also been influenced by the global recession due to the property sector in the United States then the recession have spread to other countries, such as Greek, Argentina and Turkey.

The financial performance is assumed to be influenced by the size of the companies. The bigger the company therefore the better of the company's financial performance will be. However, if the big companies do not manage their resources well, then the companies can not compete and at the end, the companies will be smaller and smaller and go bankrupt.

Based on the above background, therefore the title of this study is The Effect of Firm Size, Sales, Age of Receivables on Financial Performance at Automotive Companies Listed at The Indonesian Stock Exchange.

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This research has been limited to the firm size, sales, age of receivables, financial performance at the automotive companies listed at the Indonesian Stock Exchange at the period of 2014 until 2017. Based on the background and the limitation of the research, therefore, the researcher determines the problem formulation as the following: have the firm size, sales and age of receivables effected the financial performance simultaneously and partially at the automotive companies listed at the Indonesian Stock Exchange?

The objective of this study is to know the effect of firm size, sales, and age of receivables on financial performance at the automotive companies listed at the Indonesian Stock Exchange at the period of 2014 until 2017.

2 THEORICAL FRAMEWORK

Financial statement is made up of the statement of financial position, comprehensive income statement, statement of changes in equity, cash flow statement and notes to financial statement (Sumarsan, 2018). The users of financial statement are the internal of the companies and the external of the companies. The internal users consist of the management and the employees, whereby the external users consist of the customers, the suppliers, the creditors, the investors, the governments and other external parties.

A good financial system is one that efficiently takes money from savers and gets it to the individuals who can best put that money to use (Keown, 2014).

According to Keown (2014) an income statement or profit and loss statement indicates the amount of profits generated by a firm over a given time period, such as 1 year. Profit equals to sales minus expenses. The income statement starts with sales then substract the cost of goods sold to get gross profits (Kieso, 2008). Then, gross profits deduct the operating expenses to determine the operating profit or earning before interest and taxes (EBIT). After that, the EBIT substract the interest and taxes to get net income or earning after tax (EAT). The figure of EAT represents the earning available for the shareholders, which means the profit that may be reinvested in the company or distributed to its owners, if the net cash is available. The distribution of profit to the shareholders are known as dividend.

Income statement gererally starts with sales (Brigham, 2015). The company tries to increase its sales in many ways. A sales strategy is designed to execute an organization’s marketing strategy for individual accounts (Ingram, 2006). A firm’s sales strategy is important for two basic reasons. First, it has a major impact on a firm’s sales and profit performance (Ingram, 2006). Second, it influences many other sales management decisions. The new sales person should focus on understanding how the sales process works in the company so that they can better balance the time across different sales efforts.

According to Suwito and Herawaty (2005), public companies listed on the Indonesian Stock Exchange can be categorized into 3 (three) large groups, namely large companies, medium companies and small companies. Determination of the size of the company is based on total assets of the company or the sales of the company or the stock market value.

The size of a company is the size of the company's capacity which is valued from the assets it has. The greater the assets of a company, it can be said that the larger the size of the company (Sutrisno, 2003).

The size of the company in this study is projected by the average of the total assets. The greater the total assets owned by the company, the larger the size of the company.

Receivables are amounts owed to the entity and can take two basic forms, which are accounts receivable and notes receivable (Griffin, 2009). Receivables are usually a significant portion of the total current assets (Warren, 2014). In order to increase the sales of the company, therefore the company will offer installment sales, credit sales and leasing. The accounts receivable arises from the credit sales of goods or services. The company should do the evaluation of 5Cs for its customers. The five Cs consist of character, capacity, collateral, capital of the customer and the economic condition. The collateral of the customer can be the bank guarantee, of which the amounts is based on the company’s request. The company tries to minimize the bad debt. One of the tools to reduce the bad debt of the company is preparing an age of accounts receivable reports. Company can use the schedule of the ageing of receivables to confirm the number of the customers’ receivables and to make plan to collect the companies’ debt faster. The receivables collection period is the average length of time required to convert a firm’s receivables into cash. It is calculated by dividing accounts receivable by sales per day (Brigham, 2016).

3 RESEARCH METHOD

This study has used descriptive method. The population of this study are the automotive companies that have been listed at the Indonesian Stock Exchange and have submitted their audited financial statements for the period of 2014 until 2017 to the Indonesian Stock Exchange. This research has used a non probability sampling, using purposive sampling technique. The purposive sampling method have the following criteria: the automotive companies are listing at the Indonesian Stock Exchange for the period of 2014 until 2017, the companies have published their audited financial statements; and the denominators of the statements are in Indonesian Rupiah (IDR).

Based on the above criteria, therefore there are 12 automotive companies for the sample. The samples are PT. Astra Internasional Tbk, PT. Astra Otoparts Tbk, PT. Indo Kordsa Tbk, PT. Good Year Indonesia Tbk, PT. Indomobil Sukses Internasional Tbk, PT. Indospring Tbk, PT. Multi Prima Sejahtera Tbk, PT. Multistrada Arah Sarana Tbk, PT. Nipress Tbk, PT. Prima Alloy Steel Universal Tbk dan PT. Selamat Sempurna Tbk.

Data collection method is documentary method by gathering literatures, journals, and audited financial statements.

Data analysis method in this study is multiple regression analysis (Lindstrom, 2015). The analysis has used SPSS.

The independent variable is the explanatory variable and the dependent variable is the explained variable (Gujarati, 2009). The independent variables in this study are firm size, sales and age of accounts receivables. The firm size has been used the average of total assets. The dependent variable is financial performance, which is the profit..

4 ANALYSIS

The data has been processed with SPSS.

Table 1: The Analysis Result of Coefficient of Multiple Linear Regression

Model		Unstandardized Coefficients	
		B	Std. Error
1	(Constant)	-595694	187354
	TotAsset	-,077	,009
	Sales	,167	,012
	Age_Rec	6737	2678

Source: Data Processed, 2018

Based on table 1, the regression model is as the following:

Profit = -595694 – 0,077 TotAssets + 0,167 Sales
+ 6737 Age_Rec

The above regression model has shown that:

a. The constant value of -595694 shows that if the independent variables are constant, therefore the profit will decrease as much as 595694 unit.
b. The coefficient of firm size is -0.077. The negative sign shows that if the firm size increased by 1% then the profit will decrease 0.077 (0.77%).
c. The coefficient of sales is 0.167. The positive sign shows that if the sales increased by 1% then the profit will increase 0.167 (16.7%).
d. The coefficient of age of receivables is 6737. The positive sign shows that if the age of receivables increased by 1% then the profit will increase 6737.

Table 2: Coefficient of Partially Test

Model		t	Sig.
1	(Constant)	- 3,180	,00 3
	TotAsset	- 8,666	,00 0
	Sales	14,4 96	,00 0
	Age_Rec	2,51 5	,01 6

Source: Data Processed, 2018

Based on table 2, the tcount of firm size is -8.666 with the significant error of 0.000. The ttable of firm size is 2.01537. So, it can be concluded that partially, firm size has effected the financial performance negatively and significantly. This has indicated that the larger the size of the company then the lower the profitability of the firm. The manager of the company should manage the total assets of the company efficiently and effectively. The manager should use the total assets of the company optimally, and he should decide whether the assets to use for the operation of the company, or to invest the assets to generate income from them. Finance manager can invest the idle assets in terms of buying share of other companies in order to get dividends and capital gain or buying government bonds in order to generate interest income.

The tcount of sales is 14.496 with the significant error of 0.000. The ttable of sales is 2.01537. So, it can be concluded that partially, sales has effected the financial performance positively and significantly. This has indicated that the bigger the sales of the company then the higher the profitability of the firm is. The management of the companies should manage to increase the sales because the growth of sales can increase the profit of the firm.

The tcount of age of accounts receivable is 2.515 with the significant error of 0.016. The ttable of age of accounts receivable is 2.01537. So, it can be concluded that partially, age of accounts receivable has effected the financial performance positively and significantly. This has indicated that the improvement in the age of the accounts receivable of the company then the higher the profitability of the firm will be. The company tries to shorter the age of accounts receivable, which means the bad debt becomes smaller or there is no bad debt in the company, and the result is the profit of the firm becomes higher.

Table 3: The Simultaneous Test, ANOVA

Model		F	Sig.
1	Regression	1219,87	,000[b]
	Residual		
	Total		

a. Dependent Variable: Profit
b. Predictors: (Constant), TotAsset, Sales, Age_Rec

Based on table 3, the Fcount of the model is 1219.87 with the significant error of 0.000. The Ftable is 2.61. So, it can be concluded that simultaneously, firm size, sales and age of accounts receivable have effected the financial performance positively and significantly. This has indicated that the total assets, sales and the age of accounts receivables of the company have influenced the profitability of the firm.

Table 4: The Determination Coefficient

Model	R	R Square	Adjusted R Square
1	,994[a]	,988	,987

Source: Data processed, 2018

Based on table 4, the coefficient of determination has shown that the R Square is 0.988 or 98.8%. This has been indicated that the firm size, sales and age of accounts receivables had effected the profit of the firm as much as 98.8%, the remaing 1.2% has been effected by other factors that have not been included in this study. The other factor such as liquidity, dividend payout ratio, net working capital and other factors.

5 RESULTS

The results of the study are

a. Firm size has effected the firm's profit negatively and significantly. This has indicated that the larger the size of the company then the lower the profitability of the firm. The result has been supported by Isik (2017) that the size of the company has effected the profitability of the firm.
b. Sales has effected the financial performance positively and significantly. The result has been in accordance with the statement from Ingram (2006) that there is a major impact on a firm's sales and profit performance.
c. The age of accounts receivable has effected the financial performance positively and significantly. This has shown that the company has managed the accounts receivables well then it will increase the financial performance of the company, through higher profit.
d. The coefficient of determination has shown that the R Square is 0.988 or 98.8%, which means that the firm size, sales and age of accounts receivables had effected the profit of the firm as much as 98.8%, the remaing 1.2% has been effected by other factors that have not been included in this study.

6 CONCLUSIONS

Based on the above analysis and results, then it can be concluded that simultaneously firm size, sales and age of receivables have effected the financial performance positively and significantly. Partially, firm size has effected the firm's profit negatively and significantly. Partially, sales and age of accounts receivable have effected the financial performance positively and significantly. The coefficient of determination has shown that the R Square is 0.988 or 98.8%. This has been indicated that the firm size, sales and age of accounts receivables had effected the profit of the firm as much as 98.8%, the remaing 1.2% has been effected by other factors that have not been included in this study. The other factors are as liquidity, dividend payout ratio, net working capital and other factors.

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