

The Effect Of Short-Term Debt And Long-Term Debt on The Income of Palm Oil Stock Issuers

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Abstract

Received: 28 April 2023

Revised: 9 Juni 2023

Accepted: 20 Juni 2023

This study aims to explore how short-term and long-term debt affect the operating income of palm oil companies. This study is a type of quantitative research using the panel data multiple regression analysis method. The independent variables in this study are Short-Term Debt (X1) and Long-Term Debt (X2). The dependent variable in this study is Operating Income (Y). The data source in this study is the Indonesia Stock Exchange Report in 2019-2023 and uses the Purposive Sampling Technique. The results of the study show that Short-Term Debt and Long-Term Debt partially do not have a significant effect on the Operating Income of Palm Oil Issuer Shares. In addition, simultaneously Short-Term Debt and Long-Term Debt have a significant effect on the Operating Income of Palm Oil Issuer Shares.

Keyword: Short Term Debt, Long Term Debt, Operating Income

INTRODUCTION

The palm oil industry is one of the strategic agricultural sectors in Indonesia and several other tropical countries. The growth of the palm oil industry is greatly influenced by global demand for palm oil (CPO) as the main raw material in the production of food, cosmetics, and biofuels. Indonesia as the world's largest producer faces unique challenges and opportunities in managing this industry (Purwanti & Umdatun Rismasari, 2022). Palm oil plantations in Indonesia often operate on a large scale with thousands of hectares of land managed by large companies. Operational complexity includes aspects such as plantation maintenance, CPO processing, distribution, and marketing. (Masyitah & Harahap, 2018)

The revenue of palm oil companies is greatly influenced by the fluctuation of CPO prices in the global market. The increase or decrease in CPO prices can significantly affect the company's business revenue in the short and long term. Production costs in the palm oil industry include plantation costs, labor costs, processing costs, and distribution costs. Companies often experience pressure to manage these operational costs to maintain profitability. The palm oil industry is also faced with challenges related to environmental sustainability and social issues such as land conflicts and community relations issues, which can affect the company's image and operations. (Limandra et al., 2023)

Debt is an integral part of a company's capital structure that plays a vital role in financing day-to-day operations and long-term investments. Short-term and long-term debts enable palm oil

companies to finance their operational activities, including routine expenses such as production costs, employee salaries, and marketing costs. For example, short-term loans can be used to address temporary cash shortages due to fluctuations in revenue from CPO sales. The palm oil industry requires investment in the development and maintenance of oil palm plantations to maximize yields and CPO quality. Long-term debts are often used to finance long-term investments such as plantation expansion or investment in infrastructure required for the CPO processing process. (Mulyani et al., 2016)

The right debt structure provides financial flexibility to palm oil companies to face changing market conditions, such as falling CPO prices or rising production costs. Short-term loans can be used to manage cash flow and maintain adequate liquidity. The use of debt can also affect the company's risk and return profile. Long-term debt often has lower interest costs than short-term debt, but has a longer liability risk. Company management must consider this in planning the capital structure to achieve the optimal balance between risk and return. (Suryana & Widjaja, 2019)

Revenue is one of the key performance indicators used to evaluate the effectiveness of the Company's operations and growth. The revenue of a palm oil company is greatly influenced by the price of CPO in the global market. Rising CPO prices can significantly increase revenue, while falling prices can cause a decrease in revenue. This can affect the company's decision to use debt to fund operations or necessary investments. In addition to prices, revenue is also affected by fluctuations in global demand for palm oil-based products. Strong demand from the international market can increase revenue, while falling demand can have the opposite effect. Operational expenses such as production costs, distribution, and selling costs also directly affect revenue. Companies need to consider a debt structure that can help them maintain or improve operational efficiency to optimize revenue. Marketing and sales strategies also contribute to the revenue of a palm oil company. By understanding market potential and external conditions, companies can use the right debt structure to support their marketing strategy to increase revenue. (Lumbantobing, 2017)

Several previous studies have shown that debt can have positive or negative impacts depending on its structure and management. (Mengga et al., 2023). The right amount of debt can increase profitability by expanding production capacity or increasing the scale of operations, but too much debt can also increase financial risk. Other studies have highlighted that an optimal debt structure can increase firm value by optimizing the cost of capital and the use of leverage for growth. Several studies have separated the effects of short-term and long-term debt in their effects on firm performance. Short-term debt tends to provide flexibility in cash management, while long-

term debt can provide stability in funding long-term investments. There is debate about the optimal debt structure across industries. Some studies suggest that firms should avoid too much debt to reduce financial risk, while others suggest that moderate leverage can increase firm value if managed well. (Fitriyanti, 2020).

The novelty of this study is the focus on the palm oil industry which has unique characteristics such as significant commodity price fluctuations and diverse production costs. This allows the study to provide deeper insights into how debt structure affects financial performance in this particular agricultural context. This study does not only consider the effects of short-term or long-term debt separately, but also examines the combination of both. This provides a more comprehensive picture of how the overall debt structure affects the operating income of palm oil companies. In addition, the focus on operating income as a key performance measure is a novelty in this study. This allows to evaluate the direct impact of debt structure on the day-to-day operations of the company, which is important in understanding how financial policies can affect the Company's immediate results.

The results of this study can be the basis for policy recommendations in terms of debt management and other financial strategies in the industry. With a focus on palm oil issuers, this study is expected to provide significant contributions to the literature on the relationship between capital structure and corporate performance in the agricultural sector, especially in a dynamic and complex economic context.

METHODS

This kind of research uses secondary data and is quantitative in nature. All palm oil firms listed on the Indonesia Stock Exchange comprise the population, and the Purposive sample Method—which involves selecting participants based on predetermined criteria—is the sample technique employed. Specifically, palm oil firms that submit full financial reports between 2019 and 2023 and those that are regularly listed on the Indonesia Stock Exchange should be mentioned. This study employs E-Views 12 software for data analysis. The model selection test, which tries to ascertain which test model is practicable or appropriate to utilize, is the first step in the multiple regression analysis data analysis process. This study's framework is as follows.

RESULT AND DISCUSSIONS

Before conducting hypothesis testing, a model selection test is first conducted. First, a

chow test is conducted, namely a test to select the best approach between the Common Effect Model (CEM) and Fixed Effect Model (FEM) approaches that are most appropriate for use in estimating panel data.

Table 1.1

Chow test

Effects Test	Statistic	d.f.	Prob.
Cross-section F	12.294735	(4,18)	0.0001
Cross-section Chi-square	32.924701	4	0.0000

Source : Output Eviews 12 (2024)

The Prob table displays the Chow test findings, which are $0.0000 < 0.05$, as shown in the above table. Thus, it may be said that the Fixed Effect Model (FEM) was chosen as the model. Second, the Hausman Test is utilized in conjunction with the hypothesis testing criteria to determine which model data is optimal between the Fixed Effect Model (FEM) and Random Effect Model (REM) methods.

Table 1.2

Hausman test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	1.161348	2	0.5595

Source : Output Eviews 12 (2024)

The random cross-section table displays the Hausman test findings, which are $0.5595 > 0.05$, as shown in the above table. Thus, it may be said that the Random Effect Model (REM) was chosen as the model. Third, the Random Effect model vs the most suitable Common Effect model to utilize is tested using the Lagrange Multiplier (LM) Test. Table 1.3

Lagrange Multiplier Test

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	16.23705 (0.0001)	0.900053 (0.3428)	17.13710 (0.0000)
Honda	4.029522 (0.0000)	-0.948711 (0.8286)	2.178462 (0.0147)
King-Wu	4.029522	-0.948711	2.178462

	(0.0000)	(0.8286)	(0.0147)
Standardized Honda	5.668071	-0.747199	0.316687
	(0.0000)	(0.7725)	(0.3757)
Standardized King- Wu	5.668071	-0.747199	0.316687
	(0.0000)	(0.7725)	(0.3757)
Gourieroux, et al.	--	--	16.23705 (0.0001)

Source : Output Eviews 12 (2024)

The random cross-section table displays the Hausman test findings, which are $0.0001 < 0.05$, as seen in the above table. Thus, it may be said that the Random Effect Model (REM) was chosen as the model. The Random Effect Model is the best final model, according to the findings of the Chow test, Hausman test, and Lagrange multiplier test (REM). Additionally, a number of tests are used to conduct hypothesis testing. The Determination Coefficient Test comes first.

Table 1.4

Termination Coefficient Test

R-squared	0.023876
Adjusted R-squared	0.064863
S.E. of regression	96.98642
F-statistic	0.269057
Prob(F-statistic)	0.766578

Source : Output Eviews 12 (2024)

Based on the table above, the Adjusted R-squared determination coefficient value is 0.064836 or 6%. This can be interpreted that other variables outside the model can explain the remaining 94% of the factors that determine business income. The independent variables in this study are only able to explain 6% of the factors that affect business income. Second, the T-test to test independent variables partially.

Table 1.5

T Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
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C	38.65167	103.9869	0.371697	0.7137
X1	0.685601	54.36752	0.012610	0.9901
X2	0.005120	0.007237	0.707482	0.4867

Source: Output Eviews 12 (2024)

From the calculation results above, it can be concluded that both X1 and X2 have no effect on variable Y because they have a probability value > 0.05 . Short-term debt has no effect on the operating income of palm oil issuers because palm oil issuers have a different capital structure compared to other industries.. Furthermore, an F Test is conducted to test the effect of independent variables on the dependent variables simultaneously.

Table 1.6

F Test

F-statistic	0.269057
Prob(F-statistic)	0.766578

Source : Output Eviews 12 (2024)

From the table above shows that short-term debt and long-term debt together or simultaneously do not affect business income can be seen in the Prob table (F-statistic) of $0.766578 > 0.05$, which means that short-term debt and long-term debt together do not affect business income. This shows that the company's capital structure, including the level and type of debt, together affect the Company's financial and operational performance. In addition, it has an integrated policy in managing these two types of debt. The use of short-term debt for daily operational needs and long-term debt for long-term investment can affect business income through the effects of interest costs, capital restructuring, or additional access to working capital.

Discussion

Short-term debt may not affect operating income due to several factors, namely First, the company uses other funding sources or has a different financial policy. Second, the palm oil industry can have unique market characteristics. such as commodity price fluctuations or regulatory changes can have a greater effect on operating income than the level of short-term debt. Third, the company has good risk management or adequate liquidity reserves to cover short-term liabilities without affecting operating income. Fourth, the existence of external factors such as economic conditions, monetary policy, or political situations have a greater effect on operating income than the level of short-term debt. In addition, Long-Term Debt does not have a significant

effect on the operating income of palm oil issuers due to several factors. First, palm oil issuers use long-term debt for specific purposes such as long-term investment or development. However, the use of this debt does not directly affect operating income because operating income is more influenced by factors such as commodity prices, production costs, and market demand. Second, the Company has an effective risk management policy in managing long-term debt, so that there is no significant negative impact on operating income. This can include careful financial management to avoid overleverage or excessive interest payment pressure. Third, long-term debt is often used to support long-term growth strategies, such as production capacity expansion or business diversification. In this context, operating income is more influenced by the success of the implementation of the growth strategy than the level of long-term debt. Fourth, the existence of external factors such as fluctuations in crude palm oil prices or government policies are more likely to affect the company's financial performance than the long-term capital structure

CONCLUSION

Based on the results of the research conducted, the short-term debt variable partially does not affect business income. This result was obtained from the t-test which showed a significance value of $0.9901 > 0.05$. This means that even though the company has increasing short-term debt, it does not guarantee that the company will make a profit. Based on the results of the research conducted, the long-term debt variable partially does not affect business income. This result was obtained from the t-test which showed a significance value of $0.4867 > 0.05$. This means that even though the company has increasing short-term debt, it does not guarantee that the company will make a profit. Short-term debt and long-term debt simultaneously show a negative effect on the business income of the company that has been studied. This result was obtained from the F-test which showed a significance value of $0.766578 > 0.05$.

Suggestions from the results of this study for the Company are; First, the management of palm oil companies needs to carefully consider the use of short-term and long-term debt. Identifying the optimal combination of short-term debt for operational needs and long-term debt for long-term investment can help reduce capital costs and improve the efficiency of financial resource use. Second, it is important for companies to have a solid risk management policy related to debt management. This includes monitoring interest rates, debt time structures, and credit terms. Good management in this case can help reduce the risk of high interest costs or the possibility of debt restructuring. Fourth, in addition to relying on debt, companies can also consider diversifying funding sources such as equity, venture capital funding, or internal funding generated from operations. This diversification can reduce dependence on debt and increase financial flexibility. Fifth, it is important for companies to have a mature cash plan. This includes

anticipating short-term and long-term funding needs, as well as ensuring the availability of adequate liquidity to meet financial obligations and investment opportunities. Sixth, Management must conduct regular evaluations of the capital structure and its effect on operating income. Transparent reporting to stakeholders is also important to build trust and manage expectations regarding the company's use of capital. Seventh, Given the impact of global and local economic conditions and industry factors such as commodity prices, companies should monitor changes that may affect their financial performance. This can help in responding quickly and adapting financial strategies accordingly.

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