



Hulontalo Ethnic's Values in Making Business Capital Funding Decisions

Muh. Sabir Mustafa^(✉), Ubud Salim, Nur Khusniyah Indrawati, and Siti Aisjah

Universitas Brawijaya, Malang, Indonesia
sabir.sidrap@gmail.com

Abstract. This study aims to explore and understand the Hulontalo ethnic group in the furniture business in Gorontalo City values in making business capital funding decisions. This research was conducted with a qualitative approach using Spradley's ethnographic design as the analysis knife and the Developmental Research Sequence method was used as the analysis technique. This study shows that the more widely used capital structure approach is the Pecking Order theory. The Hulontalo ethnic group's values in making business capital funding decisions are caring, trust, and brotherhood.

Keywords: Customary values · islamic values · financing decisions

1 Introduction

Traditional values are the basis for the Hulontalo ethnic group in carrying out their daily activities, including running their business which continues until today. To maintain the customary values of the Hulontalo ethnic group, the traditional stakeholders (*Baate*) agreed to form a Customary Council to implement the Gorontalo traditional philosophy, which the regional government then outlined it in Regional Regulation Number 2 of 2016. The ratification of Regional Regulations is one of the legal remedies that provides a legal basis for customary institutions to have full authority. On the other hand, many entrepreneurs in their capital funding decisions ignore the noble values of the customs they adhere to, especially if these customs adhere to the *Shari'a* & the *Qur'an*.

The number of Hulontalo ethnic furniture entrepreneurs is decreasing from time to time; this is caused by the decreasing number of wood and rattan raw materials that can be processed into furniture products; thereby, it has an impact on higher prices and results in a lack of capital to be used in managing the business. The price of wood and rattan raw materials is increasingly high due to the high costs incurred for procuring raw materials due to scarcity. The wood and rattan raw materials for Hulontalo ethnic furniture entrepreneurs are so far only obtained from regencies in Gorontalo Province, and they will obtain the raw materials from outside the regencies if these materials still cannot meet their demands.

In addition to the lack of raw materials, another factor that causes fluctuations in the number of Hulontalo ethnic furniture businesses is the lack of capital to develop

the business. Based on the Department of Trade and Industry of Gorontalo City data, the average Hulontalo ethnic furniture business capital ranges from Rp. 15,000,000 to Rp. 600,000,000, so the right method is needed in making business capital funding decisions. Capital is often an obstacle in entrepreneurship because it is not realized that there are many possibilities and opportunities to get the right capital for entrepreneurs [1].

According to Muhammad [1], venture capital sources consist of own capital (internal) and loan capital (external). Before setting the right capital, an entrepreneur has four interests in his funding decision: how to make the cost of capital change by decisions that affect the capital structure, how much debt the firm should use, how much the firm should bear the cost of capital, and what is the relevant cost of capital on investment decisions [2]. In reality, the use of external capital (debt) currently provides many concessions (deferments) but is accompanied by late payment fines and additional interest on loans. This practice is considered *usury*, and *usury* is strictly prohibited in Islamic law, which is the way of life of the Hulontalo ethnic group, as described in *Surah An Nisa* verse 161 that says those who eat *usury* are very inhumane. Therefore, Allah has forbidden us to take it, and those who disobey the prohibition are said to combine two evils: inhumane and violating Allah's commandments. Additionally, a painful torment in the hereafter is prepared for those who eat other people's property in a vanity way [3].

The Islamic culture that is reflected in the customary values of the Hulontalo ethnic group is a demand and guide in making business capital funding decisions. Kenneth and Jerry define culture as a set of values, beliefs, rules, and institutions that are held by a particular group of people [4]. Furthermore, culture is a significant factor in the business world, but many business people do not make efforts to prepare for changes and cultural differences [4], because the cultural characteristics of a community can have a tangible impact on the investment decisions of that community [5].

Therefore, policymakers should consider the strong consequences of cultural influences when designing and implementing corporate funding initiatives [6] and Hilgen [7] reveals that a firm's capital structure decisions are significantly influenced by culture.

Capital structure is one of the most critical decisions when discussing corporate finance because it relates to how a firm finances its assets through liabilities and equity [8]. Capital structure has been studied intensely so that it has experienced debate in financial management discussions over the last four decades.

1.1 Modigliani and Miller (MM) Theory

The capital structure was first developed by Franco Modigliani and Merton H. Miller in 1958, which influenced the further development of the capital structure theory. Researchers and academics always refer to the Modigliani and Miller [9] theory when discussing the cost of capital and capital structure. The MM theory explains that financial managers do not need to worry about capital structure because in a perfect market, all combinations of using good capital structures are used as capital structure is irrelevant and has no effect on firm value.

1.2 Pecking Order Theory

In 1961, Gordon Donaldson introduced the Pecking Order theory, which states that there is no optimal capital structure, specifically firms have a preference order (hierarchy) in using their funds. The Pecking Order theory [10] argues that firms that want to grow must have capital obtained from debt, but this theory predicts that firms are better off using their internal funds if available and debt over capital when external financing is needed.

1.3 Trade-Off Theory

In 1963, Modigliani and Miller improved their initial model, which in this model they considered the company tax (but still ignores the personal tax). Additionally, the model is known as the Trade-off Theory as the MM-2 model or the MM model with corporate tax [11]. This theory states that a firm has an optimal debt level and tries to adjust its actual debt level towards the optimal point, when the firm is at a level of debt that is too high (overleveraged) or too low (underleveraged). However, in a stable condition, the firm will adjust its debt level to the average level of its long-term debt.

2 Research Methods

The research design used was a qualitative approach with Spradley's ethnographic design as the analytical knife. According to Creswell [12], ethnography refers to a qualitative design in which a researcher describes and interprets the same pattern of values, behavior, beliefs, and language of a group that has the same culture. This study applied Spradley's ethnographic approach, namely the developmental research sequence with five main principles: choosing research techniques, identifying the research stages, carrying out the stages sequentially, practicing original research, and finding problem-solving, namely that research results have practical benefits [13].

The study is focused on Hulontalo ethnic furniture entrepreneurs in Gorontalo City. The snowballing sampling technique was used to select informants to obtain data.

The ethnographic approach' data collection technique in this qualitative research was carried out by observing participants (participant observation), in-depth interviews, and documentation. Meanwhile, the validity checking of this ethnographic research data adopts the Lincoln and Guba [14] standards/criteria, namely credibility, transferability, dependability, and confirmability.

The Developmental Research Sequence is as shown in Fig. 1.

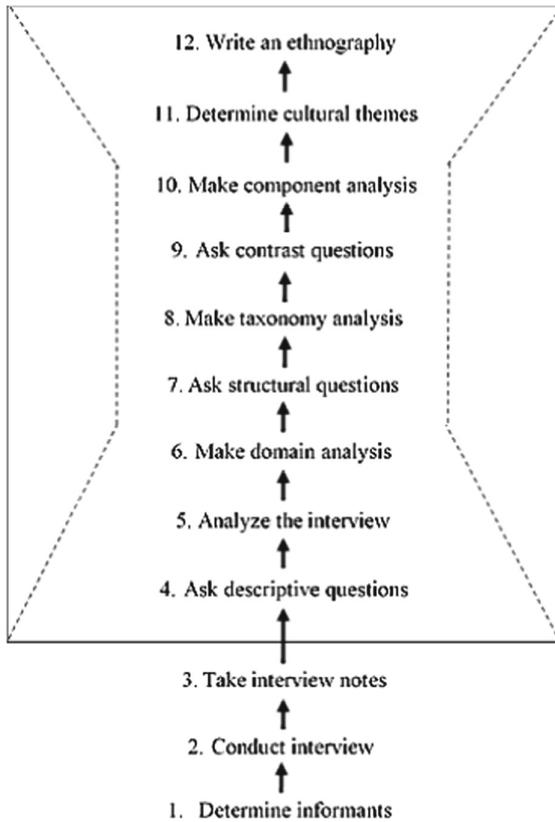


Fig. 1. Developmental Research Sequence

3 Results and Discussion

Funding decisions are about where to get funds to buy assets [15]. Funding decisions can be divided into two: short-term and long-term. Short-term financing decisions include short-term debt such as notes payable and accounts payable. Meanwhile, funding decisions will impact a firm's capital structure [16].

According to one Hulontalo ethnic furniture entrepreneur on Jl. Palma, Dungingi, Gorontalo City, Mr. Bayu Duhengo, the type of teak that they usually use as raw material in the furniture business is in scarcity due to the long growth process, which makes the raw material is costly, and they have switched to using a lower quality wood, namely "Chinese wood" teak. This wood type is widely used because it grows fast and has a quality level below normal teak, while for rattan materials are still mostly obtained from regencies in Gorontalo Province.

The furniture products are primarily marketed in Gorontalo City, which is the economic center of Gorontalo Province, and also marketed in regencies throughout Gorontalo Province. In addition, the marketing of Hulontalo ethnic furniture products

receives many orders from outside the province, such as Central Sulawesi and North Sulawesi.

In fact, many Hulontalo ethnic furniture entrepreneurs still use internal capital sources in developing their businesses. However, a small percentage also uses combined capital, namely internal and external capital. Internal capital is the main source of capital used by the Hulontalo ethnic group because it makes customary values named 'sara'. In the Qur'an, *sara* refers to guidelines in entrepreneurship.

3.1 Caring

In giving a loan to their families, lenders do not charge fines for late payments or additional interest because the loan is solely to help the family develop and improve their business with the hope that they can get good luck (*barokah*).

“At first, I just helped my family as he only rented the land there (while pointed to the location of the land) and he decided to make home furniture, making him could not afford to pay the rent with me, so I gave him capital and thank God there is a small profit”. (Mr. Umar Ali)

Internal capital in the form of a loan from the family will be repaid once the entrepreneur (borrower) can pay off the debt. The practice of internal capital in the form of a loan to families can provide benefits (*maslahah*) for entrepreneurs (borrowers) and family groups (capital owners).

3.2 Trust

When Hulontalo ethnic entrepreneurs borrow from their families as a source of internal capital funding, they will get leeway (deferred) payments by the lender (family) until they are able to pay the debt.

“These people are family, so we have to trust our family, if not us, who else would trust? So, just let them try until they are able to pay the debt from revenues they earn”. (Pak Ishak Payuyu)

If the borrower continues to try (*ikhtiar*) and has good intentions (honest) to pay his debts, then the family will continue to provide motivation, work enthusiasm, and payment deferment. However, if the entrepreneurs (borrowers) are able to pay the debt but still defer or do not pay it (negligent), then the entrepreneurs lose trust and risk the future development of their business because they lose support and trust from family groups (*linula*).

3.3 Brotherhood

The practice of using internal capital (loans to family) for the Hulontalo ethnic group shows that the brotherhood (*ukhuwah*) exists between capital owners and entrepreneurs who are mutually pleased/willingly continues to grow and is practiced today so that it

can increase operating profits, provide luck (*barokah*) and benefits (*kemaslahatan*) in the forms of happiness for entrepreneurs, capital owners, and the surrounding environment.

Islamic values that frame the business in the forms of *masalahah* and *barokah* as the essential foundation for carrying out business activities, the achievement of which is through Islamic values such as *ukhuwah* (brotherhood) that is packaged in *silaturrahim* and *'an taraadhin minkum* (mutual pleasure/willingness) [17].

Helping each other is an implication of *ukhuwah Islamiyah*. Brotherhood (*ukhuwah*) leads people to gain luck (*barokah*) and benefit (*masalahah*) as well as grace and happiness in the world and the hereafter as explained in *Surah Al Maidah* verse 2 that says please help others in doing good, namely all things that lead to worldly benefit and hereafter. Likewise, please help in piety, namely an effort to avoid worldly and hereafter disasters even with people from a different religion. And do not help in committing transgressions and sins if you fear Allah, because His punishment is indeed very severe [3].

The behavior of individuals within the same group and those from different groups is significantly influenced by culture [18]. Cultural differences make entrepreneurs challenging to build, develop, and maintain successful business relationships with partners [19]. For example, US entrepreneurs have difficulty doing business with Japanese entrepreneurs simply because they do not understand the Japanese business culture [20]. Therefore, policymakers must consider the substantial consequences of cultural influences when designing and implementing corporate funding initiatives [6].

4 Conclusion

This study is in line with the Pecking Order theory, which states that there is no optimal capital structure, specifically firms have preference order (hierarchy) in using funds.

Author Contribution. Muh. Sabir Mustafa is PhD. Student Universitas Brawijaya; Lecturer Universitas Ichsan Gorontalo. Ubud Salim is Profesor and lecturer at Universitas Brawijaya Malang, Indonesia. Nur Khusniyah Indrawati is lecturer at Universitas Brawijaya Malang, Indonesia. Siti Aisjah is lecturer at Universitas Brawijaya Malang, Indonesia.

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