

Financial Structure and its Impact on Commercial Bank Objectives

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ABSTRACT:

This study aimed to identify the financial structure and its impact on commercial bank objectives. The study tested one hypothesis which are: There is relationship between financial structure and commercial bank objectives. Researcher distributed (130) questionnaire forms among some of the workers in the field selected randomly (117) Forms were collected as 90%. Statistical package of social sciences programmer (SPSS) used for analyzing data. The study reached some findings from which: The Bank's optimal financial structure contributes to achieving the objectives of commercial banks in Khartoum state, the use of commercial banks in Khartoum State for borrowing financing achieves profitability and increases risk, the use of commercial banks in Khartoum state for short-term financing achieves the liquidity target and reduces risks. Interest the optimal composition of the financial structure of the commercial banks operating in Khartoum state, Interest the balance between profitability and risk for commercial banks operating in Khartoum state.

Keywords: *Financial Structure - Commercial Bank Objectives.*

Introduction

Finance attracts the attention of many economists because it is closely related to economic development. Despite the multitude of methods available, the means to optimize their use and make them complementary to each other is the biggest challenge for any private economy with the recent global developments that have recently swept the world on various levels, and the political, which cast a shadow on the various countries of the world through the shifts towards the launch of market forces, and the liberalization of exchanges and movement of capital and the removal or reduction of legislative and regulatory restrictions related to all sectors of the economy, The impact of the financial structure on commercial banks objectives.

The problem

Banks play the role of financial intermediation between people with disabilities and those with surplus investments in various financial resources. they also seek to achieve the objectives of liquidity and profitability, while facing the potential risks that they will face and reduce them, through the above is the problem of study the following questions: -

- 1- Is there relationship between financial structure and commercial bank objectives?

The Objectives

Study aimed to identify to: -

- 1- Concept the financial structure.
- 2- Concept the commercial bank objectives.
- 3- Know the Impact of Financial Structure on Commercial Bank Objectives

Hypothesis

To achieve the objectives of study were tested this hypothesis:

- 1- There is relationship between financial structure and commercial bank objectives.

Theoretical Framework

Financing structure "as the structure of sources of financing or the liability side in the balance sheet"(Naeimi,2009), financial structure is the combination of the long-term debt and the right of ownership used by the Company to finance its business and the structure of the capital is not fixed but changes in order to reduce the weighted average cost of capital (Ross et. al, 2008), the financial structure is a combination of long-

term sources such as preferred stocks, bonds, long-term loans, and retained earnings. That is, the term capital structure refers to the relationship between long-term financing sources and a structure. Appropriate capital is an important financial management decision because it is tied to the value of the company. The company's permanent financing represents long-term debt and equity (Subramanian et al, 2009). The financial structure consists of short-term financing and long-term financing, which is illustrated in the following: -

1- Short – term Finance:

Is the money that the company receives and is obliged to refund within a period not exceeding one year, the short-term loans are obtained by the company in order to finance the company's working capital requirements, and for a short period not exceeding the accounting period of the company and sources of short-term financing are (Gupta & Sharma, 2007):

- **Trade credit:** is a short-term loan received by the company from suppliers represented by forward purchases of goods and services. This form of financing is important for small businesses, and the company that uses commercial credit may end up paying a higher price than the purchase price, so this is a very expensive source of finance (Ziad,1996).
- **Credit Bank:** are short-term loans of no more than one year used in the face of temporary imbalances between. Cash inflows and outflows, or paying outstanding taxes without adequate liquidity (Tareq,2002).

2- Long – term Finance:

These are sources whose maturity extends to more than one year and is a component of a structure Financing, and companies seek to obtain sources of funds and appropriate support for investments the company, depending on the prevailing conditions in the financial markets, the extent of management's risk tolerance, and the companies seeking To finance their internal cash flow requirements of retained earnings and reserves, In case of inadequate internal financing, the company resorts to long-term loans and equity(Issuance of new bonds and shares), the sources of long-term financing are:

- **Common Stock:** represents a title deed with nominal value, book value and market value. This type of stock is the most common and is the primary property of the company(Munir,1998), One of the fundamental rights of the owners of these shares to vote in all the important things that concern life Such as the election of the Board of Directors or the proposed merger or acquisition. Ordinary shareholders do not Guarantee the profit divider and have a lower priority in the company's assets in case of bankruptcy. Legally enjoyed Ordinary shareholders have a limited liability with losses determined by the original amount of their investment in the Company (Parrino & Kidwel, 2009).
- **Preferred Stock:** an preferred stock represents a title deed with nominal value, book value, and market value the common stock, the preferred stock is similar to the ordinary stock in some respects the most important It represents a deed of ownership has no history Entitlement, and it is also entitled to preference shareholders in priority to purchase any new issues of Preferred stock, and on the other hand bonds are similar in that the share of profits is determined at a certain percentage of its nominal value, as well. It may provide for the right of the Corporation to call the Preferred Shares((Munir,2006).
- **Long-term borrowing:** Long-term borrowings represent indebtedness to be met by the company at a later date and have three sections:
 - **Long-term loans:** are loans obtained by the company from financial institutions, Such as banks and insurance companies with maturity of up to thirty years. The lender and the borrower agree on (interest rate, maturity date, mortgages) and cost This loan is a percentage of the loan amount but this ratio is not fixed as per the lender's request especially if Interest rates from the market were bullish, and repayment of the loan was due on maturity Agreed upon or in the form of equal installments on specified dates(Munir,2000).
 - **Bonds:** is a written and stamped contract agreement signed by the party that created or created it, undertakes to pay periodic interest and pay the agreed amount at a specified future date, and long-term bonds are a source of long-term financial sources obtained by business organizations (Samir,2001).
 - **Financial leasing:** Leasing is divided into two types: operating lease: this lease is characterized by the fact that the lessor assumes the maintenance and service of the equipment the second advantage is that rents do not cover the full cost of the asset and the lessee has the right to cancel the rent and return the asset before the lease agreement expires. Financial leasing: It does not include providing maintenance services. The

tenant is not entitled to cancel the rent, and the lessor receives a rent equal to the value of the asset plus the return on the invested capital (Brigham & Ehrhardt, 2011).

Commercial bank objectives:

Commercial banks are non-specialized financial institutions dealing in debt and credit, which are primarily engaged in retractable deposits i.e. on-demand (short-term) loans are offered as intermediaries among those who have a surplus of money and those who need those funds (Munir, 1999).

Commercial banks objectives to (Akram, 2005):

- **Profitability:** the bulk of the Bank's assets consist of fixed costs and interest paid on deposits so it is said that commercial banks are among the most financial institutions exposed to the effects of financial leverage, which means that the increase in the bank's income at a certain rate leads to an increase in profits by a larger percentage.
- **Liquidity:** liquidity of the bank means its ability to face withdrawals of depositors and to meet customer demand for loans (Abdul Kareem, 2010).
- **Safety:** Commercial bank's capital is small, with a net asset ratio of only 10%, which means the small margin of safety for depositors whose money is used by the bank as a source of investment. The bank cannot absorb a loss in excess of the value of the capital, if the loss increases only a part of the depositors' money and the result is the Bank's bankruptcy declaration is therefore considered to be one of the bank's most important objectives Commercial (Mohammed, 1998).

Results & Discussion:

The study sample includes Commercial Banks – Khartoum state – Sudan. The researcher distributed (130) questionnaire forms among some of the workers in the field selected randomly (117) Forms were collected as 90%. (SPSS) used for analyzing the relevant data. The researcher used statistical methods following: frequencies, percentages, median, and Chi-Square test the hypothesis.

Table1: Presents the respondent's demographic characteristics. The respondents' ages between (25 and less than 40 years) is the highest which represents (51%) followed by respondents' those between (less than 25 years) which represent (34%) then the respondents' ages (40 and less than 55 years) who represent (12%). Lastly, the respondents' ages (55 years and more) who represent (6%). Regarding the respondent's job title, the majority of them were Accountants who represent (69%), followed by managers (18%) and lastly, the respondents job title Auditors who represent (13%). Concerning the respondents who have educational level, the majority of them were graduates who represent (78%), followed by the level of Post-graduates who represent (13%). Lastly Secondary- graduates who represent (9%). As for the length of respondents' working experiences. The table shows that respondents' whom have worked (less than 5 years) and who worked for (6 to 10 years) were the same ratio who represent (94%) followed by those work (11 to 20 years) who represent (6%).

Table2: Frequency Distribution and Percentage of the Views of the Sample to the Hypothesis Phrases.

Table3: Through table the level of significance Chi-Square test (.000) less than the significance level 0.05, This shows that There is relationship between financial structure and commercial bank objective, therefore the hypothesis is achieved.

Table1: Presents the Respondent's Demographic Characteristics

Variable	Particular	Frequency	Percent
Age	less than 25 years	40	34.00
	25 and less than 40 years	59	51.00
	40 and less than 55 years	12	10.00
	55 years and more	06	05.00
	Total	117	100.00
Job Title	Accountant	81	69.00
	Manager	21	18.00
	Auditor	15	13.00
	Total	117	100.00
Educational Level	Secondary- graduate	11	09.00
	Graduate	91	78.00

	Post-graduate	15	13.00
	Total	117	100.00
Experience	Less than 5 years	87	74.00
	6 to 10 years	23	20.00
	11 to 20 years	07	06.00
	Total	117	100.00

Table 2: Frequency Distribution and Percentage

Phrases	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Total
The Bank's optimal financial structure contributes to the liquidity objective.	88 %75	25 %21	03 %3	01 %09	00 %00.00	117 %100
The Bank's optimal financial structure contributes to the profitability objective.	45 %38	51 %44	10 %9	09 %7	02 %2	117 %100
The Bank has current assets that contribute to the liquidity objective.	33 %28	48 %41	23 %20	13 %11	00 %00	117 %100
Financing by property reduces profitability.	66 %56	48 %41	03 %3	00 %00	00 %00	117 %100
Funding through long-term borrowing reduces the safety target.	24 %21	87 %74	06 %5	00 %00	00 %00	117 %100
Financing through long-term borrowing contributes to the goal of profitability.	51 %44	39 %33	10 %9	10 %9	07 %6	117 %100
Short-term financing is used to finance current assets that meet the liquidity target.	69 %59	23 %20	18 %15	02 %2	05 %4	117 %100
Long-term financing is used to finance fixed assets that meet the profitability target.	33 %28	67 %57	11 %9	04 %3	02 %2	117 %100

Table3: Median and Chi-Square

Phrases	Median	explanation	Chi-Square	Asymp. Sig.
The Bank's optimal financial structure contributes to the liquidity objective.	5	Strongly Agree	117.10	.000
The Bank's optimal financial structure contributes to the profitability objective.	4	Agree	188.55	.000
The Bank has current assets that contribute to the liquidity objective.	3	Neutral	204.10	.000
Financing by property reduces profitability.	5	Strongly Agree	110.07	.000
Funding through long-term borrowing reduces the safety target.	4	Agree	219.02	.000
Financing through long-term borrowing contributes to the goal of profitability.	4	Agree	243.90	.000
Short-term financing is used to finance current assets that meet the liquidity target.	5	Strongly Agree	209.87	.000
Long-term financing is used to finance fixed assets that meet the profitability target.	3	Neutral	116.00	.000

Result

- The Bank's optimal financial structure contributes to achieving the objectives of commercial banks in Khartoum state.
- The use of commercial banks in Khartoum State for borrowing financing achieves profitability and increases risk.
- The use of commercial banks in Khartoum state for short-term financing achieves the liquidity target and reduces risks.

Recommended

- Interest the optimal composition of the financial structure of the commercial banks operating in Khartoum state.
- Interest the balance between profitability and risk for commercial banks operating in Khartoum state.

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