THE INFLUENCE OF INVESTMENT DECISIONS, FREE CASH FLOW, AND DEBT POLICY ON THE FINANCIAL PERFORMANCE OF CONSTRUCTION COMPANIES

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ABSTRACT

Every nation's economy depends heavily on the construction industry because of the rise in demand for housing infrastructure and amenities during periods of rapid economic growth. Effective financial management is crucial for the sustainability and growth of construction companies. This study explores the impact of free cash flow investment decisions and debt policy on the financial performance of construction companies. Investment decisions significantly affect financial performance as they influence the allocation of resources, with an emphasis on the Price Earning Ratio (PER) to gauge market expectations and future prospects. Free cash flow, representing the cash available after operational and investment costs, positively and significantly affects financial performance. Debt policy, as a crucial part of capital structure decisions, also significantly influences financial performance. The study uses quantitative methods and concludes that these factors collectively explain 62.9% of the variation in financial performance. Understanding these dynamics can aid construction companies, investors, regulators, and other stakeholders in optimizing financial strategies and achieving sustainable growth in the competitive construction industry.

Keyword : The Influence of Investment; Free Cash Flow; Debt Policy; Financial Performance

ABSTRAK

Perekonomian setiap negara sangat bergantung pada industri konstruksi karena meningkatnya permintaan infrastruktur dan fasilitas perumahan selama periode pertumbuhan ekonomi yang pesat. Pengelolaan keuangan yang efektif sangat penting untuk keberlanjutan dan pertumbuhan perusahaan konstruksi. Penelitian ini mengeksplorasi dampak keputusan investasi arus kas bebas dan kebijakan hutang terhadap kinerja keuangan perusahaan konstruksi. Keputusan investasi berpengaruh signifikan terhadap kinerja keuangan karena mempengaruhi alokasi sumber daya, dengan penekanan pada Price Earning Ratio (PER) untuk mengukur ekspektasi pasar dan prospek masa depan. Arus kas bebas yang mewakili kas yang tersedia setelah biaya operasional dan investasi berpengaruh positif dan signifikan terhadap kinerja keuangan. Kebijakan utang, sebagai bagian penting dari keputusan struktur modal, juga mempengaruhi kinerja keuangan secara signifikan. Penelitian ini menggunakan metode kuantitatif dan menyimpulkan bahwa faktor-faktor tersebut secara kolektif menjelaskan 62,9% variasi kinerja keuangan. Memahami dinamika ini dapat membantu perusahaan konstruksi, investor, regulator, dan pemangku kepentingan lainnya dalam mengoptimalkan strategi keuangan dan mencapai pertumbuhan berkelanjutan dalam industri konstruksi yang kompetitif.

Kata kunci : Pengaruh Investasi; Free Cash Flow; Kebijakan Hutang; Kinerja Keuangan

INTRODUCTION

The construction industry is very important to a country's economy because rapid economic growth triggers increased demand for infrastructure, housing and other facilities. Therefore, construction companies must manage their finances efficiently to ensure business continuity and sustainable growth. Managers must be able to collect funds both from within the company and from outside the company efficiently (Wisudanto, 2014). Good financial management can be delegated by people who are more competent in their field (Masrizal, 2020). Key factors that influence the financial performance of construction companies include investment decisions, free cash flow, and debt policy (Gambatese et al., 2017). Wise management and careful monitoring of these factors are important for a company's long-term success in the construction industry (Arifin, 2017)

Investment decisions are crucial as they impact the company's value. These decisions involve allocating or using funds effectively, and the efficiency in fund utilization directly determines the profit generated from investments (Haufler & Schjelderup, 2000). According to (Setiawan et al., 2018), investment decisions pertain to how financial managers allocate funds into investments that will yield future profits. These decisions are of utmost importance as they affect the realization of the company's vision and mission. Investment decisions are measured using the Price Earning Ratio (PER), which reflects market expectations regarding future growth and associated risks (Safryani et al., 2020). PER is significant for investors (Adhitya et al., 2022) as it indicates their interest in paying for future earnings (Salsabila & Diantimala, 2023). It serves as an indicator of both current and future income as well as risk (Apergis et al., 2015). A high PER suggests expected improved stock performance in the future (Ong et al., 2010), signifying anticipated profit growth (Narayan et al., 2021). Research by Ardimas and Wardoyo (2014) underscores the impact of investment decisions on financial performance.

Sound investment decisions are critical for construction companies, as profitable construction projects can boost revenue and open new business opportunities. Inappropriate investment choices can result in significant financial losses. Therefore, investigating how investment decisions influence the financial performance of

construction companies is highly relevant for understanding effective investment strategies.

Free cash flow refers to the money a company has available after paying for operating and investment expenses. Construction companies with sufficient free cash flow can use it to expand their business pay off debt or pay dividends to shareholders. Examining how free cash flow affects a company's financial performance in the construction industry can shed light on its capacity to effectively manage cash flow and achieve long-term growth.

Free Cash Flow (FCF) is the amount of cash left over from the company's operations and working capital that can be used for capital investments or fixed assets. Thats the companys remaining free cash flow. (Raheman et al., 2010). Companies with high Free Cash Flow (FCF) typically exhibit strong performance because they possess adequate capital to support stable operational activities, ultimately shaping long-term achievements. Research by Muhharomi, Santoso, Budi, and Cinintya (2021) indicates that free cash flow positively and significantly impacts financial performance. Similarly, research by Bhakti Helvi Rambe (2020) It demonstrates that (FCF) significantly and favorably affects financial performance. Conversely, research by Catherine Augustpaosa Nariman (2018) suggests that free cash flow can negatively affect financial performance when not utilized effectively. Using available free cash flow through profitable investments can increase operating profits and enhance a company’s financial performance.

Debt policy is a vital component of a company’s capital structure decisions. Company managers must optimize the capital structure, finding the ideal combination of debt and company capital while considering the associated capital costs (Wimelda and Marlinah, 2013). Selecting an inappropriate capital structure can lead to fixed costs, such as high capital costs, which impact the company's profits (Sitompul & Nasution, 2020). Therefore, the company's debt policy can influence its financial performance (Mensah et al., 2022). Kristiana (2014) Such findings demonstrate that the firm's financial situation has been significantly impacted by the debt policy. However, Gunawan and Astuti's (2015) research presented different findings, indicating that debt policy did not significantly affect financial performance.

The right debt policy can assist construction companies in securing the necessary funds for large projects without compromising control over company assets. Nevertheless, excessive debt can elevate a company's financial risk. Consequently, research into how debt policy impacts the financial performance of construction companies is of utmost importance. This analysis offers a comprehensive understanding of the relationship between debt levels and the growth of construction company businesses.

A profound comprehension of the influence of investment decisions, free cash flow, and debt policies on the financial performance of construction companies is the key to successful business management. This research is valuable for construction companies, investors, regulators, and other stakeholders interested in developing the construction industry. Construction companies can optimize their financial strategies and attain sustainable growth in this competitive market by grasping these dynamics.

LITERATURE REVIEW

Investment Decisions

Investment decisions are strategic decisions that are vital in increasing company value. This decision involves allocating a company's financial resources to various investment forms to generate future profits. The importance of investment decisions lies not only in the potential financial benefits This is achievable and also because they have a significant impact on achieving the company's vision and mission. Use the price ratio (PER) to measure investment decisions emphasizes the important role of the market in assessing a company's future growth and the level of risk involved. PER is a ratio that compares a company's stock price to its net earnings per share, reflecting market expectations of its future performance. In this context, the role of investors becomes very significant because the investment decisions they make can be influenced by PER and market expectations regarding company growth. Therefore, corporate financial managers must carefully consider market expectations, risk levels, and the company's growth potential when making investment decisions. Indicators such as PER can assist in this decision-making process, providing a clearer picture of the market's assessment of a company's investment prospects. By considering these factors carefully, companies can optimize their investment decisions to achieve long-term goals and sustainably increase company value (Nugraha et al., 2022).

Financial Performance

Financial performance is one of the benchmarks used by users of financial reports to determine a company's good or bad condition. According to Isaura (2015), financial performance describes the achievement of implementing an activity to realize company goals. Financial ratios are also used to describe a company's financial situation. They are examined using financial analysis tools to determine the strength of a company's financial situation and to gauge how well a company has performed over time. Performance is a tool for realizing goals to achieve success and achievement. Financial performance can be evaluated using a variety of metrics or variables to measure a companys success often focusing on a companys financial statements. (Salsabila & Diantimala, 2023).

The researchers in this study used return on assets (ROA) as a metric to assess a company's financial performance. The profitability ratio known as (ROA), or return on assets in Indonesian, compares the amount of profit or net profit made by a company to the average number of assets. According to Murhadi (2013: 64) states that Return On Assets (ROA) reflects how much return is generated for every rupiah of money invested in assets. Return on assets (ROA) can also be understood as a ratio used to measure the effectiveness of a companys overall operations. Kasmir (2008: 201) Return on assets is a ratio used by businesses to measure their return on assets (rate of return). Return on Assets (ROA) shows a companys ability to generate after-tax profits using all its assets. (Narkunienė & Ulbinaitė, 2018).

Free Cash Flow

This represents FCF the cash flow generated by a company during an accounting period, accounting for operational payment costs and other expenses. It is a crucial metric that provides feedback or profits for investors in the form of equity or money. Companies use free cash flow to fulfil obligations, such as debts, dividend payments, share buybacks, or saving for future business growth. Free cash flow can measure business growth or payments to company shareholders. A more comprehensive definition proposed by Kieso et al. (2019) describes free cash flow as the remaining financing from all activities that generate positive present value and discounted cost of capital. The amount of FCF that can be distributed to creditors or shareholders for investment in working capital, property, plant, and equipment is the bone of contention

between managers and shareholders. A company's cash flow for various business operations is known as free cash flow, also known as net cash flow.

Debt Policy

The capital market plays a crucial role in any country and shares similarities between countries (Hasanuddin, 2021). Companies require substantial funds for their investment plans, which involve various forms of financing. One such source is the capital market, an organized market for trading shares and bonds with the assistance of brokers, commissioners, and underwriters or guarantors (Bhagat & Hubbard, 2022). Debt is a significant element in financing. Munawir (2010) claims that debt is made up of all outstanding financial obligations a company has to third parties and is a source of funding for the business from creditors. A company's management makes a strategic choice to use debt to fund its operations, commonly referred to as financial leverage (Brigham and Houston, 2010: 95). In summary, debt policy is the decision taken by a companys management to employ Debt as a source of capital to fund the companys operations.

The debt-equity ratio (DER), which represents the overall DER, is frequently used to evaluate debt policy. Basically, the greater the company's level of debt and the lower the DER, the better the company's ability to pay off debts is. Growing companies require capital, which can be sourced from Debt or equity. By utilizing Debt, companies can reap certain benefits. First, the interest paid can be tax-deductible, reducing the effective cost of Debt. Second, debt providers receive a fixed return, which means shareholders do not need to share profits when the company is in good financial health (Bhagat & Hubbard, 2022). Debt policy in this research is measured using the DER and Assets Ratio, calculated with the following formulas:

$$DER = \frac{total\ Amoun\ of\ debt}{modal}$$

RESEARCH METHOD

Method is a method of work that can be used to obtain something. While the research method can be interpreted as a work procedure in the research process, both in searching for data or disclosing existing phenomena (Zulkarnaen, W., et al., 2020:229). This study employs quantitative descriptive methods. According to (Sugiono, 2016), research methods are scientific approaches to gathering data for specific purposes and

applications. The quantitative approach was used as the research method. As Sarstedt et al. (2020) defined, descriptive research involves using observations, interviews, or questionnaires to understand the current situation related to the subject under investigation. Through questionnaires and similar methods, data is collected to test hypotheses or address specific research questions. The researcher aims to explain the current situation being studied through descriptive research.

Using a purposive sampling technique, the population of all construction sector companies registered in 2018–2022 Business Entity Information (BEI) database is sampled based on the following standards:

Construction sector companies listed on the Indonesia Stock Exchange from 2018 to 2022.

Companies with audited financial reports presented in the Indonesian rupiah currency.

Companies that conducted Initial Public Offerings (IPOs) in 2018 or later.

Companies with complete data available for the research variables.

The collected data in this research was processed using a statistical data processing application, specifically SPSS version 16 software. The research process involves the following stages :

See Table 1.

Instrument Test

1. Validity Test

To determine whether the statements in a list are appropriate for defining a variable, use the validity test. The following are the product moment method's validity testing requirements:

a. If r-count > r-table, then the instrument is considered valid.

b. If r-count < r-table, then the instrument is considered invalid.

2. Reliabiity Test

Reliability pertains to whether an instrument can consistently measure a particular aspect over time (Zijlmans et al., 2018). The reliability testing of the instrument was conducted using Cronbach's Alpha formula, as the data was of interval type. The criteria for the reliability coefficient, according to Guilford (Ruseffendi, 2005:160), are as follows :

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See Table 2.

Classic Assumption Test

1. Normality Test

According to (Ghozali, 2018), The normality test is used to determine whether the independent variable, dependent variable, or both variables in a regression model have a normal or non-normal distribution. The data's normality can be assessed through the One-Sample Kolmogorov-Smirnov test with the following conditions:

a. The data is thought to have a normal distribution if the significance value is greater than 5% or 0.05.
b. The data is deemed to not have a normal distribution if the significance value is less than 5%, or 0.05.

2. Multicollinearity Test

The purpose of the multicollinearity test is to determine whether the independent (explanatory) variables in the regression model are correlated. The decision-making criteria for the multicollinearity test based on Tolerance and VIF are as follows:

a. The absence of multicollinearity in the regression model is indicated by a Tolerance value > 0.10 and a VIF value < 10.00.
b. Multicollinearity exists in the regression model if the Tolerance value is < 0.10 and the VIF value is > 10.00.

3. Heteroscedasticity Test

The goal of the heteroscedasticity test is to determine whether the regression model's residuals vary from one observation to the next. The presence of a discernible pattern in the graph suggests the occurrence of heteroscedasticity.

Hypothesis Testing

1. Partial Hypothesis Test (t-Test)

   The t-statistical test gauges how much each independent or explanatory variable contributes to understanding variations in the dependent variable. (Ghozali, 2013; 98). In the t-test, Evaluation of each independent variable's impact on the dependent variable is done at a significance level of 5%. The following criteria are applied:

a. H1 is accepted and H0 is rejected if t-count > t-table and p-value < 0.05, indicating that one of the independent variables significantly influences the dependent variable on an individual basis.
b. Since one of the independent variables does not significantly affect the dependent variable, H0 is accepted and H1 is rejected if t-count < t-table and p-value > 0.05.

2. R-Square Coefficient of Determination

The percentage of influence that all independent variables have on the dependent variable in explaining the dependent variable is indicated by the coefficient of determination (R2), according to Ghozali (2017).

RESULT AND DISCUSSION

Instrument Test

Validity-Test

See Table 3.

As a result of the tool validity test the r-score calculated for each evaluation item is the r-table value (calculated as 35-2=33 so the r-table value is 0.33) and the significance value (Sig.) 0.000 is less than 0.05

Reliability-Test

See Table 4.

The test results clearly demonstrate that the instrument is believed to have high reliability, as indicated by a Cronbach alpha score greater than 0.71.

Normality Test

One-Sample Kolmogorov-Smirnov Test

See Table 5.

The Statistical Test value is 0.059 with Asymp, as can be seen in the table above. (2-tailed) Sig. 0.200. This level of significance is higher than 0.05 (sig. > 5%), demonstrating that the regression model satisfies the normality assumption and that the research data are normally distributed.

Multicollinearity Test

Coefficients[a]

See Table 6.

The Investment Decision variable's tolerance value was 0.579 as a result of the multicollinearity test's findings, 0.576 for the Free Cash Flow variable, and 0.550 for the

Debt Policy variable. Additionally, the VIF values for the Investment Decision variable were 1.727. The Free Cash Flow variable was 1.736; for the Debt Policy, it was 1.819. These numbers show that the VIF values are less than 0.10 and the tolerance values are greater than or equal to 0.10. As a result, the regression model's independent variables do not exhibit multicollinearity.

Heteroscedasticity Test

See Figure 1.

The aforementioned scatterplot graph demonstrates how the points are not organized into a single pattern, but rather form a dispersed pattern above and below the Y-axis value of 0. According to the test results, the regression model is not heteroscedastic.

Hypothesis testing

See Table 7.

1. The Influence of Investment Decisions on Financial Performance

   The table reveals that the investment choice variable's computed t-value, which exceeds the t-table value (2.036), is 4.231. A significance score (sig) of 0.000, which is less than 0.05, supports it. These findings show that choices made regarding investments significantly affect financial outcomes.

2. The Effect of Free Cash Flow on Financial Performance

   The table makes it clear that the Free Cash Flow variable an estimated t-value of 4.218, which exceeds the value displayed in the t-table (2.036). A significance score (Sig) of 0.000, or less than 0.05, supports this as well. These results show that free cash flow has a significant impact on financial performance.

3. The Effect of Debt Policy on Financial Performance

   The variable credit policy's calculated t-value, as shown in the table, is 2.656, which is higher than the t-table value (2.036). The significance score (Sig) of 0.009, which is less than 0.05, further supports this. These findings show that credit policy significantly affects the state of the economy.

Coefficient of Determination Test

See Table. 8 Model Summary[b]

Based on the test findings, it was discovered that the Free Cash Flow R-squared Score, Investment Decision, and Debt Policy variables was 0.629. This indicates that

62.9% of the variation in the financial performance of construction firms can be explained by these variables, namely Free Cash Flow, Investment Decisions, and Debt Policy. These results demonstrate that these factors significantly influence the financial performance of construction companies, with Free Cash Flow, Investment Decisions, and Debt Policy playing pivotal roles in shaping a company's financial results (Meha, 2021).

Financial managers in construction companies can understand that managing Free Cash Flow, making smart investment decisions, and implementing wise debt policies can substantially impact the company's financial health (Bhattu-Babajee & Seetanah, 2022).

The first hypothesis, which concerns the influence of Free Cash Flow on financial performance, is accepted as significant. This implies that the FCF variable substantially affects the company's financial performance. Managers are not distributing the remaining company cash to shareholders as dividends; instead, they use this surplus cash to invest in the capital structure or other areas (Mensah et al., 2022). This suggests that Free Cash Flow is likely being used in the capital structure or other investments, contributing to an improvement in the companys financial performance because the infusion of capital into the capital structure results in innovations in the products it sells. In summary, a high Free Cash Flow (FCF) level leads to better financial performance, positively impacting the company's profitability (Sitompul & Nasution, 2020).

Furthermore, when Free Cash Flow values are higher, the company has adequate capital to support its stable operational activities. This aligns with the signalling theory, which asserts that well-operating companies can be identified from their financial reports with favourable outcomes and that their operational management can assess the company's performance prospects effectively and accurately. These findings align with the research by Zanetty (2019), indicating that the amount of Free Cash Flow influences a company's financial performance. Free Cash Flow (FCF), often called FCF, reflects the cash left over after the company has made investments in fixed assets and the working capital needed for continuous operations in order to distribute to shareholders or owners, it is the cash available beyond necessary investment needs.

Financial performance is positively and significantly impacted by investment decisions. This finding underscores the importance of a sound investment strategy in

achieving a company's financial objectives. Financial managers must carefully evaluate investment projects, selecting those with the potential to yield profits while minimizing financial risks. Smart investment decisions can also bolster investor confidence and aid companies in obtaining additional funds for growth and expansion.

However, it is crucial to note that successful investment decisions rely on a company's internal assessment and external factors such as market conditions, industry trends, and regulatory changes. By thoroughly considering all these aspects, companies can maximize the potential of their investment decisions to achieve optimal financial results (Sachdeva et al., 2023). This implies that a high investment decision corresponds to a low level of profitability, according to a theory proposed by Ohlson and (Safryani et al., 2020), indicating that the Earnings Ratio (PER) has a U-shaped relationship with Return on Equity (ROE). Companies with high PER will yield low ROE.

Debt policy significantly impacts a company's financial performance. Debt policy relates to a company's approach to managing its capital structure, specifically the proportion of funds obtained through debt compared to its capital. A well-considered debt policy can have multiple effects on financial performance, as demonstrated by (Hasanuddin, 2021) research, which found that debt policy partially influences a company's financial performance. However, these results contradict the findings of Gunawan (2015), who determined that debt policy did not significantly affect financial performance. These studies also established that debt policy did not significantly impact financial performance.

CONCLUSION

Considering the research and conversations held, It's free cash flow after all, Investment Decisions, and Debt Policy influence financial performance. Wise investment decisions, which involve allocating funds to projects with the potential for high investment returns, positively and significantly impact a company's financial performance. Additionally, a balanced debt policy, which considers the risks and potential benefits of using borrowed funds, can provide fiscal benefits and financial flexibility that support company growth.

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TABLE AND FIGURE

Table 1

Instrument Test 1. Validity Test 2. Reliabiity Test	Classic assumption test 1. Normality Test 2. Multicollinearity Test 3. Heteroscedasticity Test	Hypothesis testing 1. T test 2. R-Square Test

Table 2.

Value	Description
<0.20	Very low
0.21-0.40	Low
0.41-0.70	Currently
0.71-0.90	High
0.91-1.00	Very high

Table Validity-Test

Variable	Item	R-count	R-table	Sig.	Description
Investation decision	X1.1	0.850	0.2441	0.000	Valid
	X1.2	0.797	0.2441	0.000	Valid
	X1.3	0.773	0.2441	0.000	Valid
Free Cash Flow	X2.1	0.848	0.2441	0.000	Valid
	X2.2	0.816	0.2441	0.000	Valid

	X2.3	0.823	0.2441	0.000	Valid
Debt policy	X3.1	0.831	0.2441	0.000	Valid
	X3.2	0.766	0.2441	0.000	Valid
	X3.3	0.744	0.2441	0.000	Valid
	X3.4	0.715	0.2441	0.000	Valid
	X3.5	0.734	0.2441	0.000	Valid
	X3.6	0.750	0.2441	0.000	Valid
Financial performance	Y1.1	0.787	0.2441	0.000	Valid
	Y1.2	0.877	0.2441	0.000	Valid
	Y1.3	0.782	0.2441	0.000	Valid
	Y1.4	0.827	0.2441	0.000	Valid

Table 4. Reliability-Test

Variable	Cronbach's Alpha	Alpha- Standart	Description
Investation decision	0.730	0.60	Reliable
Free Cash Flow	0.771	0.60	Reliable
Debt policy	0.848	0.60	Reliable
Financial performance	0.834	0.60	Reliable

Normality Test

Table 5. One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		100
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	28.99291247
Most Extreme Differences	Absolute	.083
	Positive	.069
	Negative	-.083
Test Statistic		.083
Asymp. Sig. (2-tailed)		.088[c]

a. Test distribution is Normal.

b. Calculated from data.

c. Lilliefors Significance Correction

Table 6. Multicollinearity Test

Coefficients[a]

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Investation decision	.579	1.727
	Free Cash Flow	.576	1.736
	Debt policy	.550	1.819

a. Dependent Variable: Financial Performance

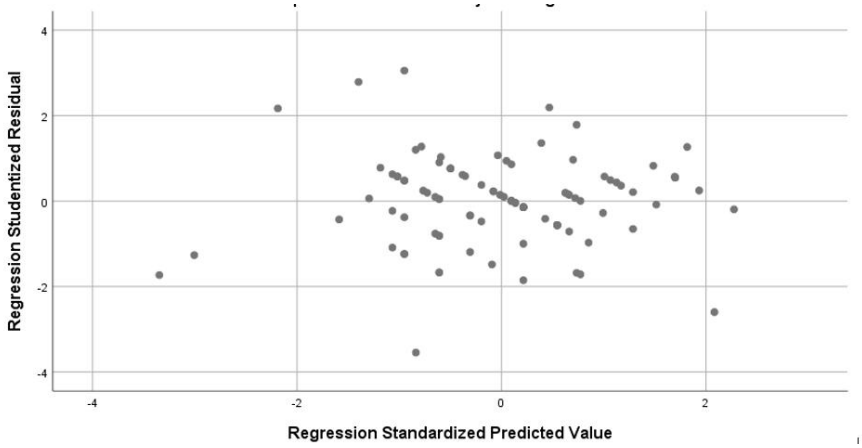

Figure 1. Heteroscedasticity Test

Hypothesis testing

Table 7. T-Test

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients			Collinearity S
		B	Std. Error	Beta	t	Sig.	Tolerance
1	(Constant)	33.756	30.039		1.124	.264	
	Investation decision	.329	.078	.350	4.231	.000	.579
	Free Cash Flow	.372	.088	.350	4.218	.000	.576
	Debt policy	.256	.096	.225	2.656	.009	.550

a. Dependent Variable: Financial Performance

Coefficient of Determination Test

Table 8. Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.788[a]	.620	.609	29.44244

a. Predictors: (Constant), Debt Policy, Investment Decisions, Free Cash Flow
b. Dependent Variable: Financial Performance