CHAPTER I

INTRODUCTION

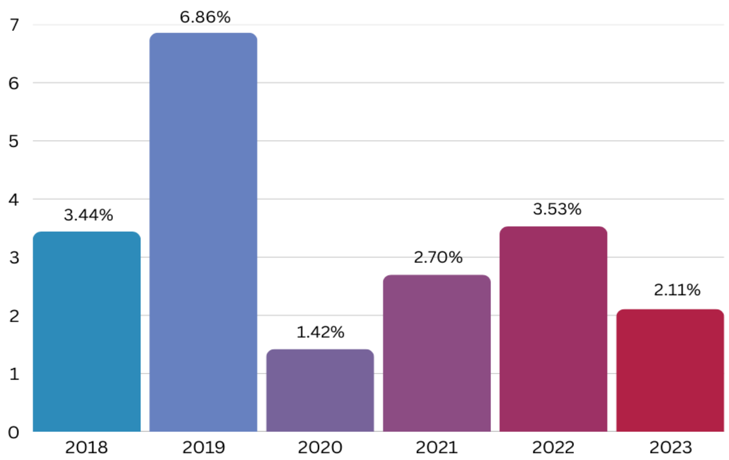
1.1 Research Background

The property and real estate market in Indonesia has become a significant engine of the country's economic growth during this time of globalization and rapid growth. The necessity for property and real estate development grew a lot in 2018. This matter was mainly because more people were moving to cities, which meant there was a greater demand for housing, and more money was being spent on infrastructure. There are several ways to make money in this industry. But businesses in this field must deal with a lot of problems, such as property prices moving up and down, new rules, and the market changing quickly. For that reason, companies that are registered among the Indonesian Stock Exchange are often better than the competitors. This is why for a company to prolong their stay in business and compete among the competitors in the future, they need to know well about the property and real estate of other companies.

The financial performance of an organization will usually reflect the overall financial health and efficiency of the organization, which the management team uses these resources at its disposal as tools to improve or maintain the performance. Financial performance is also a crucial factor in dictating its well-being. Return on assets (ROA) is a metric that is usually used for a company's financial performance. Since return on assets (ROA) is used to measure how competent a firm can produce profit from all its assets, it provides a clear picture of the company's ability to utilize those assets to achieve its financial goals. If a company's return on assets (ROA) is on the high end, it indicates the effectiveness of resource management by the management team. Additionally, stakeholders and investors normally consider this metric to evaluate how well a company executes their operations and potential profitability to achieve their goals.

Since the level of risk and complexity in the property and real estate industry that is listed in the Indonesia Stock Exchange (IDX) is high, financial performance is an important criterion to be considered. The reason for this being the ever-changing market and government policy of the country. According to the data compiled by the Central Statistics Agency (BPS), the property and real estate market in Indonesia has grown a significant amount over the last few years. The sector grew at an annual average rate of around 5.3% from 2018 to 2023. The growth was triggered by increasing demand for housing, both from the segment of low-income and middle-income people, as well as increasing foreign investment. Nevertheless, challenges such as economic fluctuations, Government regulations, and intense competition remain a significant concern for companies engaged in this sector.

Finding out how much the ROA value difference for the 2018–2019 period has increased by 3.42% was the aim of this study, as the ROA value was obtained by examining processed data from real estate companies and properties' financial records. It went down by 8.28% between 2019 and 2020. But from 2020 to 2021, it went up by 4.12%. It also went up, though not by much, by 0.83% from 2021 to 2022. But from 2022 to 2023, there was a small drop of 1.42%.



Source: Data from the Financial Statements of Property and Real Estate Companies listed on the Indonesia Stock Exchange (IDX) processed

Figure 1. The percentage of ROA for the years 2018 to 2023

The trend in this industry shows that there is significant potential for expansion, yet many organizations are still struggling to achieve the best financial results. For example, financial reports indicate that certain companies' return on assets (ROA) went down even though sales and capital investment went up (Moser et al., 2021). The figure above displays data from real estate property and financial statements of companies listed on the Indonesia Stock Exchange (IDX), presenting a return on assets financial shape from 2018 through 2023.

The trouble in this industry is it shows we have a lot of slacking, but many firms are still struggling to get the best financial results. For example, when financial data indicates that ROA of some firms decreases when they increase sales and capital expenditure (Moser et al., 2021). This means that the company will not always make more profit if they invest more in capital and sell faster. We will have to honestly explore these objects to find out how they are connected.

Capital expenditure or also known as CapEx is another factor that could have a large influence on a company's finances. Businesses generally utilize CapEx to buy or improve fixed assets such as buildings, facilities, and equipment. Capital expenditure is essential for a company's finances since the correct investment can increase production capacity and make operations run more smoothly, which improves financial performance (Dovita et al., 2019). Recent research shows that capital asset allocation can benefit a company's finances because it has a substantial effect on the business's worth overtime (Moser et al., 2021).

But there was a time when many real estate and property corporations had problems keeping track of how much money they were spending. The debt-to-equity ratio may change, but it is still a good way to find out how corporations pay for their investments. According to Meshack et al. (2020), companies with better capital structures are more likely to make money because they can better handle financial risks. If the company spends too much money on capital or does so without notice, it could affect its cash flow and profits in the long run. Businesses should think carefully about how their capital expenditure will affect their earnings and how it fits in with other things, such as the company's size and sales growth.

One of the most essential signals that a business can improve sales is sales growth. IDX data demonstrates that continuous sales growth is very closely tied to solid financial performance in the real estate business. Growth in sales at the real estate and property company, on the other hand, may not move in a straight line. Some external factors that influence it are fluctuations in the economy and market, or changes in people's ability to purchase products (Moser et al., 2021). Despite various problems, such as a fluctuating economy and insufficient land, the property market in Indonesia has improved a lot and larger over recent years. According to Prabasari and Amalia (2022), higher sales will have a very big and positive influence on companies' finances, because higher sales yield more profit. This suggests that firms that can sell more are better able to achieve their financial targets.

But this evolution also has problems to solve, such as fierce competition and fickle tastes among customers. According to data from Bank Indonesia, sales grown in the real estate business has been erratic despite other sectors performing well. There are two external factors causing them to oscillate, namely the condition of the world economy as well as government policy (Detik Finance, 2018).

The size of a business has an enormous effect on how much money it makes. Big companies are known to have easier access to money and resources while small ones can adapt quickly according to market conditions (Chen & Chen, 2011). Chen and Chen (2011) discovered that larger firms earned more profits. That is, larger companies have more ways to make money and are generally better at managing risk, which are both good for making money. For bigger property and real estate companies, which tend to have better access to resources such as money and distribution networks, they might be able to afford to take on riskier projects and do well with them. Then, if you can take advantage of these benefits, you're able to make more money and ultimately get higher value for the shares over time. There. This tendency is much more prevalent in bigger firms. It can have better hands and the size cost of going insolvent would decline as result, which contributes positively to their financials (Meshack et al., 2020). This article reminds us of the significance of firm size to the financial condition of a company, especially in places where availability of resources is crucial.

A company’s size can have an impact on perception of its stability and growth prospects by investors and other stakeholders, too. Most people assume that large corporations are solid and can adapt to changing market conditions and therefore have the potential to make more money. One problem for big businesses, however, is that they must constantly innovate and change with the market. According to the studies, other dimensions including use of capital and sales growth are equally important to predict a company’s aggregate financial performance as they are for its ROA profitability, particularly considering that the company being of big size gives it an edge relative to competitors (Dovita et al., 2019). This also applies to companies no matter the size of a business, turnover rate, and capital expenditure. Maintaining a genuine capital structure for a company will allow them to handle assets better and also minimize the risk of bankruptcy (Dovita et al., 2019). Past studies have found results that businesses with lots of debt in their capital structure are less likely to make profit and are prone to go out of business. (Moser et al., 2019).

Dovita's (2019) past research showed that a company will face various financial problems and display awful financial results if their capital structure is not proper, not to mention if the company has lots of debt. These financial complications generally make it difficult to produce profit and could even delay the company’s growth in the future. This is why considering the amount of debt is always important before deciding capital structure. Ross et al. (2022) stated that organizations with more debt will lower the profit that is given back to the owners. The return on equity (ROE) is lower, which explains why.

A firm may also have a competitive advantage over its rivals if it maintains an optimal capital structure. In any big property and real estate investment, where the initial costs may be very high, companies can take on debt to grow their businesses and make more things without having to give up ownership. But it is also important to be mindful of how your money is configured. For instance, while it may help a company grow, a study discovered that an organization still needs to focus on its debt-to-equity ratio to have healthy finances in the long run (Kumari, 2021).

Although there is a lot of research on the impact of capital expenditures, sales growth and firm size on financial performance, the literature has paid less attention to the moderate character played by capital structure. The optimal capital structure may determine how much companies invest, and therefore their financial performance. Many studies discuss either in the manufacturing or consumer sectors, so an investigation on this specific topic is required for companies engaged in the property and real estate sector in Indonesia. Several of them are not conducted in relation to Indonesian circumstances where market characteristics and regulation mechanisms might be varied. Also, little attention has been paid by earlier studies on the importance of capital structure as a moderator component in the link between capital expenditure, sales growth, firm size and financial performance. This review will bridge this gap by applying a more systematic quantitative methodology and including a broader scope of population.

One of the problems which it’s said Indonesia's real estate and property market has been a fluctuating market. Companies must prepare to respond quickly because interest rates, inflation and government policy can all shift. We contribute to them by investigating ways in which capital spending, sales growth and company size impact firm performance, and consider the additional role that capital structure can play in these relationships given this dynamic nature.

The major objective of this research is to examine what effects capital investment, sales growth and firm size has on financial performance of real estate and property firms in Indonesia. The paper also considers how capital structure could make a difference. This research should allow us to better understand what influences the financial health of businesses in this sector.

The results of the research should theoretically help us better understand how these elements relate to one another. Overall, the study's findings should help investors assess the potential performance of real estate and property companies listed on the IDX and provide management helpful guidance when selecting the best assets. A study entitled "Analysis of the Effect of Capital Expenditure, Sales Growth, and Company Size on the Financial Performance of Property and Real Estate Companies Listed on the IDX for the 2018-2023 Period Moderated by Capital Structure" is thus recommended by the researcher in view of the issues. "**Analysis of the Effect of Capital Expenditure, Sales Growth, and Company Size on the Financial Performance Moderated by Capital Structure at Property and Real Estate Companies Listed on IDX 2018-2023**".

1.2 Research Question

Consequently, the following research fields are constructed using the basic data mentioned above:

1. Does capital expenditure affect the financial performance of Property and Real Estate companies?
2. Does sales growth affect the financial performance of Property and Real Estate companies?
3. Does company size affect the financial performance of Property and Real Estate companies?
4. Does capital structure moderate the relationship between capital expenditure and financial performance?
5. Does capital structure moderate the relationship between sales growth and financial performance?
6. Does capital structure moderate the relationship between company size and financial performance?

1.3 The Objective of Research

The investigation's objectives are as follows:

1. Analyzing the effect of capital expenditure on the financial performance of Property and Real Estate companies.
2. Analyzing the effect of sales growth on the company's financial performance.
3. Analyzing the effect of company size on the company's financial performance.
4. Identify the role of capital structure as a moderating variable in the relationship between capital expenditure and financial performance.
5. Identify the role of capital structure as a moderating variable in the relationship between sales growth and financial performance.
6. Identify the role of capital structure as a moderating variable in the relationship between company size and financial performance.

1.4 The Benefit of Research

1. Theoretical Benefit

This research is expected to enlighten us more on how elements such as capital expenditure, growth of sales, and firm size contribute to Indonesian real estate and property companies' financial performance. In examining how capital structure, an essential feature of money management, affects the relationship between those two things, this study contributes to what we already know about how businesses in this sector manage their finances and conduct their operations. We should be able to get a better sense of how Indonesia's property and real estate market functions based on what the research discovered. If anything, they should also help us to brainstorm for improved ideas on how to manage money.

2. Practitioner Benefit

a. For the investors

For the people who put money in the study's conclusions will give investors the information they need to make wise investment decisions by revealing important information about the elements that affect the financial health of real estate and property businesses. Investors could utilize this research as factors on their investment by considering the variables here such as the company size, growth sales, and capital expenditures. Taking into consideration that these influence the financial performance of companies, or in this research specifically the real estate and property sector.

b. For researchers

Researchers could employ this work and find another point of view on the connection of the success of an organization and their financial management. It is hoped that the research will serve as a foundation for further studies that are related to the areas in this research.

c. For readers

We are expecting that readers will gain further knowledge of the country's real estate market and highlight the importance of how helpful caring for the financial management of a company is. The research would help readers better understand real estate investing and business practices, as well as how various interconnected factors affect a company's financial performance.

1.5 Scope of the Research

This research will examine the financial performance companies that are registered on the Indonesia Stock Exchange (IDX), to be specific, the real estate and property businesses from 2018 to 2023 that are affected by capital expenditure, growth sales, and company size. Another factor is how the moderator variable capital structure will affect the dependent one. The company's financial performance will be the dependent variable (Y) of the research, and its capital structure will act as the moderator. The independent variable (X) will be company size, sales growth, and capital expenditure. Real estate companies listed on the Indonesia Stock Exchange (IDX) are the subject of the 2018–2023 study. The research will utilize secondary data from the financial statements of companies listed on the IDX.

1.6 Outline of the Research

CHAPTER I: Introduction

In this chapter, the overview of the study's background will be laid out. Including the issues involved, followed by the formulation of problems that are described as the objectives of the research.

CHAPTER II: Literature Review

The second chapter will expand on all the keywords that are used. Theories that are used in the study will also be elaborated here, not to mention the previous studies as references to the hypothesis development and research framework.

CHAPTER III: Research Methods

Chapter three goes into great detail about research procedures, including (specific operational definitions, types of data sources, research variables, study design, research sample, demographics, and data analysis methods). It makes sure that the research method is credible and trustworthy.

CHAPTER IV: Results and Discussion

The fourth chapter talks about data analysis, which includes the results of data testing and a discussion of the study's results in order to answer research questions.

CHAPTER V: Closing

This chapter brings the study to a close and points the readers in a direction to what comes next. This part of the study is one of the most important ones because it will consist of ways the research should be done. It gives a brief explanation of the study's results and talks about how limited study is and how future studies could improve.