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The Role of Capital Structure and Investment Decisions in Enhancing Financial Performance

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Abstract

This study examines the effect of capital structure and investment decisions on the financial performance of state-owned enterprises (SOEs) in the manufacturing sector, with PT Krakatau Steel (Persero) Tbk as the case study. Using a quantitative approach with descriptive and verificative methods, the research analyzes secondary data from the company's annual financial reports for the 2020–2024 period. Data were processed using multiple linear regression with SPSS. The results show that capital structure, measured by the Debt to Equity Ratio (DER), has a negative and significant effect on financial performance, while investment decisions, measured by the Capital Expenditure to Total Assets ratio (CAPEX/TA), have a positive and significant effect. Simultaneously, both variables significantly influence financial performance, represented by Return on Assets (ROA). These findings suggest that maintaining an optimal balance between debt and equity and making prudent investment decisions are essential for improving financial performance and competitiveness.

Keywords: Capital Structure, Investment Decisions, Financial Performance, PT Krakatau Steel (Persero) Tbk.

Introduction

The manufacturing sector in Indonesia plays a pivotal role in driving the nation's economic growth. This sector contributes significantly to value-added creation, employment generation, and foreign exchange earnings. Among the key entities underpinning the domestic manufacturing industry is PT Krakatau Steel (Persero) Tbk, a state-owned enterprise (SOE) engaged in integrated steel production. As a strategic company, Krakatau Steel is expected to sustain its financial performance to remain competitive amid global economic uncertainty and the increasingly intense competition within the steel industry.

Financial performance reflects the management's capability to efficiently utilize financial resources in achieving corporate objectives. One of the critical determinants

influencing financial performance is capital structure, defined as the proportion of debt and equity used in financing corporate operations. An optimal capital structure can minimize the cost of capital and enhance firm value, whereas an inefficient one may increase financial burdens, thereby reducing profitability and overall enterprise value.

In addition, investment decisions play a vital role in determining corporate success. Well-informed investment decisions can generate future economic value and strengthen financial performance. Conversely, poor investment choices may expose firms to higher risks and reduce the efficiency of capital utilization. Therefore, management must carefully evaluate both risk and return dimensions prior to committing to investment decisions.

In the case of PT Krakatau Steel (Persero) Tbk, the company faces various challenges, including fluctuations in raw material prices, global market competition, and exchange rate volatility—all of which may influence its capital structure and investment decisions. These issues merit deeper investigation to examine the extent to which capital structure and investment decisions affect the company's financial performance.

This research aims to contribute to the development of financial management literature by providing empirical insights into the relationship between capital structure, investment decisions, and financial performance in state-owned enterprises within the manufacturing sector. Furthermore, the findings are expected to offer practical implications for corporate management in formulating more effective and efficient financial strategies in the future.

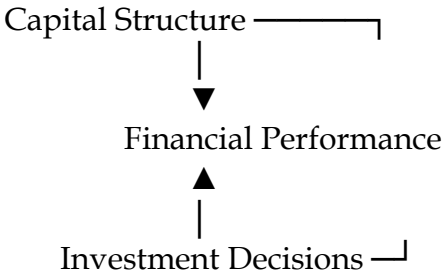
Theoretical Framework

A company's financial performance reflects its ability to manage available resources effectively and efficiently in order to achieve predetermined objectives. It serves as a fundamental indicator of managerial success in managing capital, investments, and operational activities (Horne & Wachowicz, 2018).

One of the critical determinants influencing financial performance is capital structure, which represents the proportion between internal capital (equity) and external capital (debt) utilized to finance corporate operations (Brigham & Houston, 2019). According to the seminal work of Modigliani and Miller (1958), an optimal capital structure can enhance firm value by maintaining a balance between risk and expected return. Within the context of state-owned enterprises (SOEs) such as PT Krakatau Steel (Persero) Tbk, the design of an effective capital structure is particularly vital, as the company bears dual responsibilities: achieving profitability while ensuring national economic stability.

In addition to capital structure, investment decisions also play a significant role in shaping financial performance. Investment decisions pertain to how firms allocate financial resources to assets or projects expected to generate future economic benefits (Gitman & Zutter, 2015). Theories of investment behavior, as introduced by Keynes (1936) and further developed by Jorgenson (1963), emphasize that corporate investment decisions are influenced by anticipated profitability and the cost of capital. Sound investment decisions can create shareholder value and contribute to the company's long-term profitability.

Both capital structure and investment decisions are interrelated in determining financial performance. An optimal capital structure facilitates efficient investment decisions by ensuring adequate funding availability and minimizing capital costs. Conversely, effective investment decisions can generate higher returns, strengthen profitability, and reinforce the firm's financial position.



Explanation:

- Capital Structure has a significant influence on Financial Performance.
- Investment Decisions have a significant influence on Financial Performance.
- Capital Structure and Investment Decisions simultaneously influence Financial Performance at PT Krakatau Steel (Persero) Tbk.

Method

This study adopts a quantitative descriptive–verificative approach designed to examine the effect of capital structure and investment decisions on the financial performance of PT Krakatau Steel (Persero) Tbk. The quantitative method is employed to empirically test the relationship among the variables through numerical data and statistical analysis.

The research relies on secondary data collected from audited annual financial reports of PT Krakatau Steel (Persero) Tbk, which are publicly available through the Indonesia Stock Exchange (IDX) for the period 2020–2024. The sampling technique used is purposive sampling, based on specific criteria such as the completeness,

consistency, and availability of financial information relevant to the variables under study.

This study involves three key variables: capital structure, investment decision, and financial performance. The capital structure is measured using the Debt-to-Equity Ratio (DER), which reflects the proportion of debt to equity used in financing company operations. The investment decision is proxied by the ratio of capital expenditure to total assets (CAPEX/TA), indicating the company's long-term investment activities. Meanwhile, financial performance is represented by Return on Assets (ROA), which captures the company's efficiency in generating profits from total assets.

The data are analyzed using multiple linear regression analysis to assess both the partial and simultaneous effects of the independent variables on financial performance. Prior to regression testing, a series of classical assumption tests—including normality, multicollinearity, heteroscedasticity, and autocorrelation tests—are conducted to ensure the validity and reliability of the regression model. The statistical model is formulated as follows:

$$Y=\alpha+\beta 1X1+\beta 2X2+\varepsilon$$

Where:
Y = Financial Performance (ROA)
X_1 = Capital Structure (DER)
X_2 = Investment Decisions (CAPEX/TA)
α = Constant
β_1, β_2 = Regression Coefficients
ε = Error Term

where Y denotes financial performance (ROA), X_1 represents capital structure (DER), X_2 represents investment decision (CAPEX/TA), α is the constant, β_1 and β_2 are regression coefficients, and ε represents the error term.

The empirical analysis is carried out using the Statistical Package for the Social Sciences (SPSS). The results are interpreted to determine the extent to which capital structure and investment decisions influence financial performance, both individually and jointly. The findings of this study are expected to provide meaningful implications for corporate financial management, particularly in optimizing funding strategies and investment allocations to enhance profitability and overall corporate value.The methodology section should then describe the research design, population and sample (if applicable), data collection techniques, instruments employed, and the methods of analysis adopted.

Results

1. Uji T coefficients

Tabel 1 Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.446	.073		6.150	.025		
	DER	-.034	.012	-.314	-2.933	.099	.960	1.041
	CAPEX	2.958	.361	.877	8.203	.015	.960	1.041

a. Dependent Variable: ROA

a. Pengujian variabel Debt-to-Equity Ratio (DER)
berdasarkan hail uji hipotesis diperoleh nilai t_{hitung} -2.933 dan t_{tabel} dengan tingkat signifikan 0,05 dan derajat kebebasn (dk) = n-k-1=5-2-1=2 dengan nilai t_{tabel} sebesar 2,919. Jadi nilai t_{hitung} lebih kecil dari t_{tabel} (-2.933 < 2,919), sedangkan nilai probabilitas sebesar 0,099 lebih besar dari nilai signifikan 0(0,099>0,05). Maka dapat disimpulkan ($H_0$1) diterima dan (H_a1) ditolak, artinya secara parsial sruktur modal yang di implementasikan dengan Debt-to-Equity Ratio (DER) tidak terdapat pengaruh yang signifikan terhadap Kinerja Keuangan

b. Pengujian variabel CAPEX
berdasarkan hail uji hipotesis diperoleh nilai t_{hitung} 8,203 dan t_{tabel} dengan tingkat signifikan 0,05 dan derajat kebebasn (dk) = n-k-1=5-2-1=2 dengan nilai t_{tabel} sebesar 2,919 Jadi nilai t_{hitung} lebih besar dari t_{tabel} (8,203>2,919), sedangkan nilai probabilitas sebesar 0,015 lebih kecil dari nilai signifikan (0,015<0,05), maka disimpulkan ($H_0$1) diterima dan (H_a1) ditolak artinya secara parsial keputusan implementasi yang di implementasikan secara CAPEX tidak memiliki pengaruh yang signifikan terhadap Kinerja Keuangan

2. Uji F Anova

Tabel 2 Anova[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.030	2	.015	44.505	.022[b]
	Residual	.001	2	.000		
	Total	.031	4			

a. Dependent Variable: ROA

b. Predictors: (Constant), CAPEX, DER

Dari hail uji Simultan pada tabel ANOVA (Analysis of varians), maka dapat dilihat nilai F_{hitung} yaitu sebesar 44,505 lebih besar dari F_{tabel} Sebesar 6,94 (44,505>6,94). Sedangkan nilai probsbilitas sebesar 0,022 lebih kecil dari nilai signifikan (0,022< 0,05), Maka dapat disimpulkan bahwa secara simultan tidak terdapat pengaruh yang signifikan terhadap Kinerja Keuangan yang diimplementasikan dengan RoA

Discussion

The results of this study indicate that capital structure and investment decisions have a significant influence on the financial performance of PT Krakatau Steel (Persero) Tbk. The negative effect of capital structure on financial performance suggests that an increase in leverage tends to reduce the company's profitability. This finding is consistent with the trade-off theory proposed by Modigliani and Miller (1958) and Myers (1984), which explains that although debt utilization provides tax advantages, the associated interest expenses and increased financial risk can suppress the company's earnings.

Conversely, investment decisions were found to have a positive impact on financial performance. Investments focused on enhancing operational efficiency and modernizing production facilities have been shown to improve asset productivity and profitability. This result aligns with investment theory as proposed by Keynes (1936) and Jorgenson (1963), emphasizing the importance of efficient capital allocation for long-term growth. Previous research by Gitman and Zutter (2015) also supports this finding, showing that sound investment decisions contribute positively to the financial performance of manufacturing firms.

Taken together, capital structure and investment decisions exhibit a mutually reinforcing relationship in determining financial performance. A balanced combination of optimal financing policies and effective investment decisions enables firms to maintain liquidity, manage financial risks, and enhance firm value. This finding is consistent with the view of Ross, Westerfield, and Jaffe (2016), who argue that financial and investment decisions jointly determine a firm's value.

This study contributes theoretically to the body of financial literature, particularly in the context of state-owned enterprises (SOEs) operating in emerging markets. From a practical perspective, the results highlight the importance for PT Krakatau Steel's management to maintain an optimal capital structure and focus on productive investments to strengthen long-term profitability and competitiveness.

Nevertheless, this study has certain limitations as it focuses on a single company and relies solely on secondary data. Future research is recommended to broaden the analysis by including multiple SOEs within the manufacturing sector and

integrating qualitative approaches to capture strategic and managerial aspects more comprehensively.

Overall, the findings confirm that the financial performance of PT Krakatau Steel is determined by the synergy between effective capital structure management and sound investment decision-making. This synergy serves as a key driver for achieving sustainable growth and enhancing the competitiveness of Indonesia's manufacturing industry.

Conclusion

This study reveals that capital structure and investment decisions have a significant impact on the financial performance of PT Krakatau Steel (Persero) Tbk. The capital structure shows a negative influence, indicating that an increase in debt utilization tends to reduce the company's profitability. In contrast, investment decisions exert a positive effect, where the proper allocation of funds to productive assets can enhance financial performance.

From an academic standpoint, this research strengthens corporate finance theory by providing empirical evidence within the context of state-owned enterprises (SOEs) in the manufacturing sector. Practically, the findings emphasize the importance of maintaining a balance between debt-based financing and productive investments to ensure financial stability and enhance firm value.

The main limitation of this study lies in its focus on a single company and its reliance on secondary data. Therefore, future research is recommended to broaden the scope by including multiple SOEs and incorporating qualitative approaches to gain deeper insights into corporate financial and investment strategies.

Overall, the synergy between efficient capital structure management and sound investment decision-making serves as a key determinant in improving financial performance and enhancing the competitiveness of state-owned manufacturing enterprises in Indonesia.

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Finally, the author acknowledges that this research still has limitations. Therefore, constructive suggestions and feedback are highly appreciated for the improvement of future studies. It is sincerely hoped that this work contributes to the advancement of financial and management research, particularly in the context of state-owned enterprises in developing economies.

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