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The Role Of Business Diversification, Education And Development Activities On Business Performance Of Construction Companies Listed In Indonesian Stock Exchange

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Abstract:

The aim of this research is to analyze the development of companies in the capital market, especially in the accounting aspect. The companies in this study consist of a large number of subsidiaries, associated companies, and multi-group companies. This is an applied study that uses developments in accounting doctrine, particularly those that influence balance sheet analysis, comparison of financial statements over time, and ratios. The analysis results indicate an increase in stock prices, followed by a general decline the following year, likely due to changes in the economic cycle. Regarding the debt situation, there has been a significant increase. Despite this, increases continued, reaching figures that would be difficult to maintain in the future. The following year, the figure decreased due to the crisis and the disinvestment process mentioned earlier. From this analysis, it appears that the construction group experienced significant challenges in managing their debt and assets over the period, which is reflected in their share price movements, turnover, and results. The composition and variations of the group's balance sheet showed major changes during the period, mainly due to the expansion of lines of activity that required large investments in permanent structures. This situation is unsustainable and requires significant disinvestment. This shows that the capital and financial management of these groups play a very important role in maintaining the stability and growth of their companies. Additionally, we must carefully make investment decisions and manage debt to avoid creating unwanted risks in the future.

Keywords: capital market, accounting, price, companies.

Introduction

The construction sector experienced significant growth and became one of the main supports for national production. Strong economic growth, both at national and international levels, provides great opportunities for construction companies to develop (Wijayanti et al., 2024). Many successful construction companies are moving from being medium-sized and primarily limited to the national market to expanding abroad and diversifying their activities (Supri et al., 2023). Some steps that construction companies can take to take advantage of these conditions are expanding internationally, reducing dependence on one product or service through diversification, offering consulting or project management services abroad, adopting technological innovation, and building strategic partnerships with local companies in the country. target countries (Hermiyetti et al., 2023). By taking these steps, construction companies can take advantage of strong economic growth to expand their businesses and reduce dependence on the domestic market. The emerging markets, which have become new partners, have opened up new expansion opportunities for construction companies. Diversifying businesses and expanding into other markets has prompted a more active internationalization process, a process that may not have received much priority in the past (Reinartz, 2019).

Furthermore, the massive use of debt to acquire new companies has also become a significant trend, with debt-to-equity ratios reaching previously unthinkable levels. This suggests that the construction sector underwent a significant transformation over the period, with a greater focus on international expansion, business diversification, and the use of debt for growth (Hendayani et al., 2022). Construction companies must be mindful of the increased financial complexity resulting from high debt use as well as manage the financial risks associated with aggressive expansion strategies. A deep understanding of these dynamics can help construction companies plan their strategies for the future. The evolution of accounting and financial information, both in general and specifically for the companies discussed in this research, is characterized by continuous increases in quantity and quality (Hendayani et al., 2023). These improvements have had positive consequences, in that the information available now allows for greater transparency for these companies (Anggriawan et al., 2022). This allows for a more high-quality and reliable comparison between them. Family-type companies that are not listed on the stock exchange may provide little additional information needed by the company (Sembiring et al., 2023). However, improvements in the quantity and quality of accounting and financial information have helped increase understanding and transparency in their business activities. This increased transparency can also help strengthen the trust of investors and other stakeholders in the company, as well as support better decision-making. With better and more transparent information, companies can more easily evaluate their financial performance, identify potential risks, and plan strategies for future growth and sustainability (Tannady et al., 2023).

Construction companies have made huge capital gains by listing their companies on the stock market, which is a step towards transparency (Andreas et al., 2021). This also opens up new opportunities to enter business areas that were previously difficult to access due to a lack of resources or a small company size. New business opportunities around concessions, which require significant management skills, negotiations, and material resources, have encouraged mid-sized companies to regroup and merge (Permatasari & Agustina, 2023). This has led to the current group configuration in the construction sector. The construction business has a very high specific weight in the volume executed, so these companies are very vulnerable to cyclical changes. Therefore, they feel the need to contribute to others with similar commercial philosophies, but in the service sector, to achieve a certain balance between the two (Wicaksono et al., 2020). These steps demonstrate that construction companies have taken significant steps to increase transparency, expand their business, and reduce risks associated with changes in the economic cycle. This way, they can be better prepared to face challenges and opportunities in the future.

Literature Review

Initially, companies divided infrastructure into several sections, including construction and real estate, infrastructure concessions, urban and environmental services, energy, telecommunications, and technology. Over time, companies combined and incorporated these segments. Infrastructure, services, energy, other businesses, and consolidation adjustments were among the new groupings that emerged prior to the implementation of International Financial Reporting Standards. Following the adoption of International Financial Reporting Standards, the groupings were again changed, this time to infrastructure, real estate, energy, logistics and transport, urban and environmental services, other businesses, and intergroup operations. Given these numerous changes, constructing a consistent history becomes complicated, and in certain cases, the availability of inconsistent data leads to discontinuous data. Finally, the segments have been classified as follows infrastructure, energy, urban and environmental services, logistics and airport services, telecommunications, and other businesses and investments, according to the latest segmentation made by the company.

The work portfolio in the services and concessions segment, which includes projects such as roads, ports, airports, environmental, passenger transport, and comprehensive maintenance concessions, is a difficult part to measure. This is due to the contracts' multi-year duration and the randomness of the numbers, which means the figures should not be cumulative. Although related information is usually provided in the company's reports, we do not consider it appropriate to reflect these figures in this report. However, we would like to highlight the strong development of this segment. These developments indicate that the services and concessions segment has experienced significant growth over the period studied, which may reflect expansion strategies and success in securing new projects. Diversification of the business into segments other than construction has resulted in a reduction in the weight of inventory and customer debt in relation to production value. This indicates that clients are receiving payments from these other segments faster than before. However, despite charging suppliers earlier, they have not adhered to a parallel payment schedule. In fact, not only have we maintained the figures for the most demanding moments in construction, but we have even exceeded them in the last three years. This means that payments to suppliers in segments other than construction have been made according to the same criteria as in the construction segment.

Methodology

This study focuses on the accounting and financial analysis of the most important variables in construction companies listed on the stock exchange. The fact that these companies are listed on the stock exchange allows the collection of different ratios, which allows them to present their situation relative to their competitors. The companies that are the subject of this research consist of a large number of subsidiaries, associated companies, and multi-group companies. Therefore, the parent company needs to consolidate its accounting data so that it can present its numbers in an integrated manner. To achieve this goal, these companies need to apply consolidation techniques. This is an applied study that uses developments in accounting doctrine, particularly those that influence balance sheet analysis, comparison of financial statements over time, and ratios. This study also considers an important temporal component, where the conclusions drawn must take into account the circumstances in which the event occurred. Thus, when circumstances change, the development model must also change according to the new situation.

Case studies

The group of companies in this study use the capital market to make a public offering for sale. The main goal is to place the company's shares in the hands of controlling shareholders. Companies can earn enormous capital gains by revaluing the price of their shares listed on the stock exchange. This allows the company to increase overall company value without obtaining additional funds. As a result, controlling shareholders purchased shares from some companies, leading to a decrease in the number of outstanding shares. This strategy reflects the company's efforts to increase the value of their shares in the capital market without having to issue new capital. However, this strategy can also be considered controversial because it can reduce stock liquidity and reduce public ownership in the company. In addition, this strategy also shows that companies have the ability to reevaluate the value of their shares internally without needing to rely on external sources of funds.

In the period under consideration, especially after the downturn, the share prices of construction companies experienced a significant increase. Several factors likely contribute to this increase. First, there is major expansion by the construction company, which can include geographic expansion into new markets, product or service diversification, or acquisition of other companies. This expansion can improve the company's growth prospects and strengthen its market position, which the stock market responds positively to. Second, the permanent improvement of company results also contributes to the increase in share prices. These improvements may involve operational efficiencies, product innovations, or improvements in risk management. Investors often trust companies that successfully enhance the efficiency and quality of their operations, leading to higher share prices. Furthermore, supportive market conditions can contribute to positive stock performance. For example, stable or increasing economic growth, government policies that support the construction industry, or positive trends in the construction industry as a whole can provide an additional boost to a company's stock price. This significant increase in share price shows that the construction company has succeeded in creating value for its shareholders. This positive performance can also improve the company's image in the market and increase its access to capital to support future growth and expansion.

In the context of a zero-capital increase, which could actually mean a reduction in capital, the increase in capitalization in the construction company was largely due to the increase in share prices. Various factors, such as improving the company's operational performance, positive growth estimates, or positive market sentiment towards the construction industry as a whole, can cause this increase in share prices. An increase in market capitalization is a reflection of an increase in the company's value from the perspective of investors. This can make it easier for companies to gain access to additional capital, either through new share offerings or loans. An increase in market capitalization can also increase a company's investment appeal, increase stock liquidity, and provide greater financial flexibility. Construction companies' share price variations are consistent with changes in the capital market and construction industry. This shows that the company's share price responds reasonably to market conditions and other external factors, which is a common occurrence in the stock market.

The time period studied was characterized by expansive economic cycles in which the construction sector played a dominant role. Business figures took advantage of this situation to achieve significant progress in the construction segment and plan to continue strengthening their position in the future. In addition, other activity segments also use economic cycle surges to expand and consolidate. In this period, the construction group has managed to add a significant volume of business to their activities, either through purchases or mergers with other groups. These steps have contributed to strong turnover growth and helped them achieve the desired level of diversification. This diversification is important to reduce dependence on one particular segment or market as well as increase resilience to economic fluctuations. The companies that are the focus of research continue to create new jobs. This is mainly due to stable turnover growth, especially in service sectors that employ a large number of workers. Thus, the growth of these groups' businesses not only makes a significant economic contribution but also creates a positive impact on the labor market by creating new job opportunities.

Conclusions regarding the results of ordinary activities are based on their relative contribution to turnover and their absolute variations. In general, these groups experienced significant growth in both absolute and relative values. Growth in activity volumes and a permanent increase in relative margins drove this growth. Mergers of businesses other than construction contributed greatly to this increase in relative value. However, the construction sector's margin growth itself also played an important role in the increase in relative value. Thus, diversification of these activities is key to increasing the relative value of the results of their activities. This relative margin increase shows that the groups are able to improve operational efficiency and manage costs better. This shows that the strategy of merging businesses and diversifying activities has succeeded in having a positive impact on financial performance. Furthermore, these groups' consolidated net profit follows a growth line in both absolute and relative terms. This shows that the net profit from the groups' main operational activities continues to grow over time, demonstrating the success of their operational and financial strategies.

The construction group's overall balance sheet experienced significant growth. More importantly, the composition underwent significant changes in terms of assets and liabilities. Non-current assets increased significantly, reflecting efforts to diversify activities through mergers and acquisitions of companies in areas other than construction. On the other hand, current assets, although growing in absolute value as turnover increases, experience a relative decline. Parent company net equity, non-current liabilities, and long-term liabilities also experienced significant changes, reflecting different investment strategies among the groups. These changes reflect the groups' efforts to increase their stability, growth, and long-term value by reducing dependence on construction and diversifying activities. Changes to these standards have varying impacts, which is why variations based on application to the balance sheet and loss and profit accounts are important. Although the impact on turnover is relatively small. The impact of changes to these standards shows that changes to International Financial Reporting Standards have significant consequences for these groups, especially in terms of their net results and the composition of their balance sheets.

During the period studied, a number of non-quantitative conditions occurred that affected the company. There is a general need among these companies to reach certain dimensions in order to face new challenges in the construction sector, especially related to financing investment in new infrastructure. To achieve this goal, these companies then carry out mergers and acquisitions as well as share ownership diffusion through timely public acquisition offers. This move not only aims to achieve greater scale but is also a response to a changing generation of managers and competitors who are more aware of the importance of collaboration and agreement. During this period, a number of circumstances occurred that were taken advantage of by the management. While not all of these circumstances occur simultaneously, there are some generally applicable ideas for future business expansion. During the research, it was also discovered that there were certain business opportunities, such as in the mobile phone industry, that were recommended by the company report but were not realized or were eliminated. This shows that sometimes, even though a business opportunity looks profitable, there are factors that hinder its implementation. In addition, there are challenges in building reliable historical series due to a lack of continuity of information due to new classifications or changes in business line grouping criteria. However, the enactment of International Financial Reporting Standards has brought greater consistency to the information provided by these companies. When facing future challenges and opportunities, it is important to learn from experience and apply the lessons learned during the period.

During the period observed, the five construction groups involved in this study have succeeded in reducing their dependence on the construction business by entering new business lines. This move better positions them for weather variations influenced by economic cycles that are detrimental to the construction sector. These groups have the highest classification for contracting with public administrations, so they have the best chance of getting the largest contracts from the public sector. In addition, they are also good job generators, so in times of crisis, they are in better shape if supported by the public sector. Contributing new business lines, especially those focused on services, are less susceptible to cyclical variations. This makes the results more stable in the medium and long term, providing additional benefits for the groups. The implementation of IFRS standards has increased transparency regarding the profitability of various segments that make up total turnover. This provides more data on the importance and profitability of those segments, allowing the groups to be better prepared for variations if market conditions change. However, in general, having debt is excessive from a prudential perspective. This can lead to serious losses if the profitability of businesses acquired with debt declines, causing them to have to offer additional collateral to financiers and experience difficulty meeting debt deadlines. Therefore, debt risk management must be seriously considered to avoid potential losses that have a large impact on these groups.

Conclusion

Based on the analysis results, we can conclude that while stock prices initially increased, they generally declined in the following year due to anticipated changes in the economic cycle. The turnaround maintained the growth rate but showed a slowdown, indicating a transition from a growth cycle to a recession. A similar thing happened; there were two groups that experienced negative numbers. The total balance sheet grew rapidly and stabilized in the following year. In that year, non-current assets and non-current liabilities decreased due to the disinvestment process. Regarding the debt situation, there has been a significant increase. From this analysis, it appears that the construction group experienced significant challenges in managing their debt and assets over the period, which is reflected in their share price movements, turnover, and results. From the published information, the analysis of the evolution of the five groups of companies considered in this study highlights the movement of capital and the market appreciation of their actions through stock market prices, as well as the ratios related to this. However, most of the funds for these investments are not obtained from internal funds but rather through medium- and long-term debt. This situation is unsustainable and requires significant disinvestment. This shows that the capital and financial management of these groups play a very important role in maintaining the stability and growth of their companies.

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