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# The Effect Of Capital Expenditure On Financial Performance With Good Corporate Governance As A Moderating Variable

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## *ABSTRACT*

This research is quantitative with an explanatory approach, namely an approach that has a fulcrum in previous research. The data used in this research is primary, which the researcher obtained from the annual report of the National Statistics Agency from 2015 to 2024. The data that the researcher obtained was analyzed using the smart PLS 4.0 analysis tool. The result in this article shows that the Capital Expenditure variable can have a positive relationship and an insignificant influence on Company Performance because the P-values are positive and below the 0.05 significance level, namely 0.063. These results are inconsistent with the second study. These results indicate no positive relationship between regional Capital Expenditure and good regional Financial Performance. Other relevant factors include Good Corporate Governance, Regional Original Income, etc. The second hypothesis in this article also shows a positive but insignificant relationship because the P-values are at 0.051, less than 0.05. Based on this, it can be concluded that this article's first and second hypotheses cannot be accepted.

***Keywords:*** *Capital Expenditure, Financial Performance, Corporate Governance*

## Introduction

Government Accounting Standards Statement No. 2 concerning Budget Realization Reports in the Republic of Indonesia Government Regulation No. 71 of 2010 states that “capital expenditure is a budget expenditure for the acquisition of fixed assets and other assets that provide benefits for more than one accounting period.” Minister of Finance Regulation No. 101/PMK.02/2011 concerning Budget Classification explains the classification of types of expenditure, one of which is capital expenditure. This capital expenditure can be used for, among others, land capital expenditure, equipment and machinery capital expenditure, building and construction capital expenditure, road and network capital expenditure, and other capital expenditures. This capital expenditure is based on regional needs for facilities and infrastructure to implement government duties and public facilities smoothly. According to [1] “Capital expenditure measurement is formulated by dividing total capital expenditure by total regional expenditure.” According to [2]“Capital expenditure is part of direct government spending.”

Regional governments allocate funds in the form of capital expenditure budgets within the Regional Budget (APBD) to increase fixed assets. This capital expenditure budget is based on the region's need for facilities and infrastructure to implement government duties and public facilities smoothly [3]. Regional governments typically procure fixed assets based on budget priorities and public services with a long-term financial impact each year. From the explanation of the definition of capital expenditure above, it can be concluded that capital expenditure is an activity of a government agency in the form of budget expenditures to acquire fixed assets and other assets based on the region's need for facilities and infrastructure. The capital expenditure budget reflects the regional government's policy on regional development. The regional budget is a plan for regional government activities and resource allocation. The regional budget allocation reflects the regional government's policy on development financing [4]. The public sector budget is an activity plan, manifested as a revenue increase plan and expenditure allocation in monetary units. The Regional Revenue and Expenditure Budget (APBD) is the regional government's annual financial plan, discussed and approved by the Regional Assembly and determined by regional regulations. The APBD is the basis of local financial management and guides regional governments in providing services to the public throughout a fiscal year.

Capital expenditure is a routine expenditure in the context of forming existing capital. In this case, the capital expenditure can be in land, equipment and machinery, buildings and structures, networks, or other physical forms. Based on Government Regulation of the Republic of Indonesia Number 71 of 2010 concerning

Government Accounting Standards (SAP), Capital Expenditure is a budget expenditure for acquiring fixed and other assets that benefit more than one accounting period. [5]Capital expenditure is an expenditure needed to provide fixed assets required by the government, both for operations and to carry out the relevant public service functions. It includes costs incurred for the purchase of capital goods used in the implementation of activities, including the purchase of land, buildings, machinery and vehicles, equipment, installations and networks, furniture, software, and so on. [6].

According to [7] Capital expenditure is regional government expenditure whose benefits extend beyond one budget year. In the administrative expenditure group, it will increase regional assets or wealth and increase routine expenditure, such as maintenance costs. According to Permendagri No. 13 of 2006, capital expenditure is used for expenditures made in the context of purchasing/procuring or constructing tangible fixed assets that have a useful value of more than twelve months to be used in government activities such as in the form of land, equipment and machinery, buildings and structures, roads, irrigation and networks, and other fixed assets. According to [8]Capital expenditure is an expenditure made to build fixed assets. The purpose of building fixed assets in the form of facilities and infrastructure is to provide adequate public services to increase economic productivity. If an area has sufficient infrastructure, it can encourage investors to invest, and the community can carry out their daily activities comfortably, so that the level of productivity will increase. From several definitions above, it can be concluded that Capital Expenditure is an expenditure made in the context of capital formation that is of a nature to add assets/inventories that provide benefits for more than one accounting period, including expenditures for maintenance costs that are of a nature to maintain or extend the useful life, increase the capacity and quality of assets.

Several factors can influence capital expenditures, including regional financial performance. Performance is achieving a plan, whether by an individual or an organization. If the achievement aligns with the plan, the performance can be said to have been carried out successfully. Meanwhile, financial performance is a measure of performance that uses financial indicators. [9]Measuring an organization's financial performance is crucial. Financial performance analysis assesses past performance by utilizing various analyses to obtain a financial position representing the entity's reality and its potential for continued performance. [10]. Based on the explanation of financial performance above, the conclusion is that financial performance is a measurement of the performance of a financial report using financial indicators. Analyzing financial performance can also be useful for assessing past performance and thus obtaining a relevant financial position. [11].

According to [12]"Financial performance analysis can be measured by calculating financial ratios, which are measuring tools for financial performance". The formula used in measuring regional financial performance in the article by [13]Includes the following: a. PAD Growth Rate: Growth is "an increase in volume, mass, height, or other measurements that can be expressed in numbers or quantitatively." [14]. The opinion expressed by [15]Regarding the benefits of revenue growth analysis, it is useful for determining whether the regional government experienced positive or negative growth in its budget performance in the relevant budget year or over several budget periods. Of course, the revenue growth is expected to be positive, and the trend will increase. Likewise, if negative growth occurs, it indicates a decline in revenue performance, and the cause of the decline must be sought, whether due to macroeconomic factors beyond the control of the regional government or poor regional financial management. [16]. Previous research [2] This shows that the capital expenditure variable can have a positive relationship and a significant influence on financial performance. Unlike the research [2]This article adds the Good Corporate Governance variable as a moderating variable.

## Research Methods

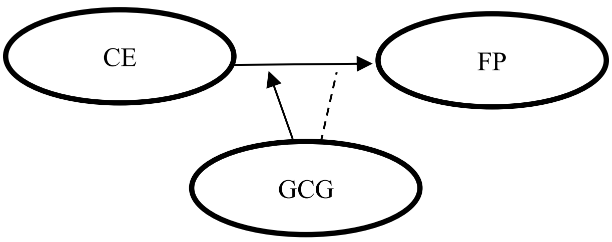


**Figure 1**. Model

**Noted:**
CE: Capital Expenditure
FP: Financial Performance
GCG: Good Corporate Governance
**Hypothesis:**
H1: The Influence of Capital Expenditure on Financial Performance

H2: Good Corporate Governance Can Moderate the Influence of Capital Expenditure on Financial Performance

The first image above shows that this article has the same objective as the research [2], namely to analyze the influence of Capital Expenditure variables on Company Performance, and Good Corporate Governance variables can moderate the influence of Capital Expenditure variables on Financial Performance [17]&[18]. This research is a quantitative research with an explanatory approach, namely an approach that has a fulcrum in previous research [2]. The data used in this research is primary, which the researcher obtained from the annual report of the National Statistics Agency from 2015 to 2024 [19]&[20] The researcher obtained data that was analyzed using the smart PLS 4.0 analysis tool, which is explained more fully below. [21]&[22].

## Result And Discussion

### Background Analysis

Government Accounting Standards Statement No. 2 concerning Budget Realization Reports in the Republic of Indonesia Government Regulation No. 71 of 2010 states that "capital expenditure is a budget expenditure for the acquisition of fixed assets and other assets that provide benefits for more than one accounting period." Minister of Finance Regulation No. 101/PMK.02/2011 concerning Budget Classification explains the classification of types of expenditure, one of which is capital expenditure. This capital expenditure can be used for, among others, land capital expenditure, equipment and machinery capital expenditure, building and construction capital expenditure, road and network capital expenditure, and other capital expenditures. This capital expenditure is based on regional needs for facilities and infrastructure to smoothly implement government duties and public facilities. According to [1] "Capital expenditure measurement is formulated by dividing total capital expenditure by total regional expenditure." According to [2]"Capital expenditure is part of direct government spending."

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**Validity Test**

The first stage used in this research is the validity test. This stage is necessary for primary data because its accuracy has not been verified. However, as with other studies, the author will still use validity testing as the first stage of this article. Based on this, the following are the results of the validity test in this article. [23].

**Table 1**. Validity Test

| Variable | Loading Factor | Noted |
|---|---|---|
| Capital Expenditure | 0.918 | Valid |
| Financial Performance | 0.935 | Valid |
| Good Corporate Governance | 0.952 | Valid |

**Valid** > 0.70

**Reliability Test**

Just as when using primary data or data obtained directly by the author, the reliability test for the Capital Expenditure, Financial Performance, and Good Corporate Governance variables used in this study was conducted to determine their reliability. Based on this, the following are the reliability test results in this article. [24]:

**Table 2**. Reliability Test

| Variable | Cronbach Alfa | Composite Reliability | Noted |
|---|---|---|---|
| Capital Expenditure | 0.911 | 0.860 | Reliable |
| Financial Performance | 0.978 | 0.925 | Reliable |
| Good Corporate Governance | 0.968 | 0.915 | Reliable |

**Reliable** > 0.70

**Path Coefficient**

The path coefficient stage is the final stage in determining the hypotheses in this article. This article uses two hypotheses: the Capital Expenditure variable can have a positive relationship and significant influence on Company Performance, and the Good Corporate Governance variable can moderate the influence of the Capital Expenditure variable on Company Performance. To understand the results, see the Path Coefficient results in this article. [25]:

**Table 3**. Path Coefficient

| | Variable | P-Values | Noted |
|---|---|---|---|
| **Direct Influence** | CE->FP | 0.063 | Accepted |
| **Indirect Influence** | GCG* CE->FP | 0.051 | Accepted |

**Significant Level** < 0.05

The results of the third table in this article indicate that the Capital Expenditure variable can have a positive relationship and an insignificant influence on Company Performance because the P-values are positive and below the 0.05 significance level, namely 0.063. These results are inconsistent with the second study. These results indicate no positive relationship between regional Capital Expenditure and good regional Financial Performance. Other relevant factors include Good Corporate Governance, Regional Original Income, etc. The second hypothesis in this article also shows a positive but insignificant relationship because the P-values are at 0.051, less than 0.05. Based on this, it can be concluded that this article's first and second hypotheses cannot be accepted.

## Conclusion

The results of the third table in this article indicate that the Capital Expenditure variable can have a positive relationship and an insignificant influence on Company Performance because the P-values are positive and below the 0.05 significance level, namely 0.063. These results are inconsistent with the second study. These results indicate no positive relationship between regional Capital Expenditure and good regional Financial Performance. Other relevant factors include Good Corporate Governance, Regional Original Income, etc. The second hypothesis in this article also shows a positive but insignificant relationship because the P-values are at 0.051, less than 0.05. Based on this, it can be concluded that this article's first and second hypotheses cannot be accepted.

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