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THE INFLUENCE OF PROFITABILITY, MONETARY POLICY ON INVESTMENT DECISIONS OF MANUFACTURING COMPANIES IN INDONESIA

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ABSTRACT
This research aims to examine the influence of profitability and monetary policy on investment decisions in manufacturing companies in Indonesia. The population in this study were manufacturing companies listed on the Indonesian stock exchange with a sample of 12 companies selected using the purposive sampling method. Data were analyzed using multiple linear regression analysis. The research results conclude that company profitability, which is measured through indicators such as Return on Assets (ROA) and Return on Equity (ROI), has a positive influence on investment decisions. Companies with high profitability tend to be better able to allocate resources into new investments or expansion, which in turn can increase their production capacity and operational efficiency. Furthermore, monetary policy implemented by Bank Indonesia plays an important role in shaping the investment climate. A decrease in the benchmark interest rate tends to encourage companies to make more investments by making borrowing costs more affordable. On the other hand, less conducive policies such as increasing interest rates can discourage investment by making capital costs higher and reducing net profits from investment.

INTRODUCTION

Investment decisions are a process that involves in-depth analysis of various economic, market and financial factors. The main goal of investment is to allocate financial resources to gain future profits. This process requires a solid understanding of prevailing economic trends and market conditions, as well as risk analysis and projections of potential profits. Wise investment decisions are based on careful data and analysis to maximize returns and minimize risk (Ahmed et al., 2022). One important strategy in investment decisions is diversification. Diversification is a technique of spreading investments across different assets or sectors to reduce risk (Patil & Bagodi, 2021). The principle behind diversification is that a well-diversified portfolio will experience lower volatility compared to a portfolio that is concentrated in one type of asset. For example, by investing funds in shares, bonds, property and commodities, investors can reduce the risk of large losses if one of the sectors experiences a decline (Abideen et al., 2023). Fundamental and technical analysis are the two main approaches used in making investment decisions. Fundamental analysis focuses on evaluating the intrinsic value of an asset based on factors such as a company's earnings, growth, and financial health. Meanwhile, technical analysis relies on price patterns and trading volume to predict future price movements. The combination of these two methods helps investors make more informed and strategic decisions,(Suresh G, 2024). Apart from internal factors, investment decisions are also influenced by external factors such as government policies, global economic conditions and technological changes. For example, changes in interest rates by central banks can have a significant impact on stock and bond markets. Government fiscal and monetary policies, as well as new technological developments, can also create opportunities or risks for investors. Therefore, successful investors are those who are able to identify and adapt to these changes in the external environment (Rahyuda & Candradewi, 2023). Good investment decisions also require regular portfolio monitoring and adjustments. Financial markets are dynamic and conditions can change quickly. Therefore, it is important for investors to continuously monitor the performance of their investments and make adjustments if necessary. In this way, investors can ensure that their portfolio remains in line with their established financial goals and risk tolerance (Jonsdottir et al., 2022).

Investment decisions in manufacturing companies in Indonesia face complex and diverse challenges. One of the main problems is fluctuations in raw material costs. Indonesia as a developing country is greatly influenced by global commodity prices. Changes in the prices of raw materials such as oil, gas, metals and chemicals can have a significant impact on production costs. This price volatility often causes companies to have to constantly adjust their investment strategies to manage thin profit margins (Iram et al., 2023). Apart from that, inadequate infrastructure is also a significant problem in investment decisions in Indonesia's manufacturing sector. Even though the government has made efforts to improve infrastructure, many companies still face logistical challenges such as limited access to roads, ports and transportation. These logistics obstacles can result in delays in the delivery of raw materials and distribution of finished products, which in turn affects operational efficiency and increases production costs (Almansour et al., 2023). Complex government regulations and bureaucracy are also major obstacles. Complicated licensing processes, frequently changing regulations, and corruption can slow down the implementation of investment projects and increase operational costs. Companies will have to allocate additional resources to address these issues, which may reduce the attractiveness of investment in the manufacturing sector. Additionally, protectionist policies implemented to protect domestic industry can sometimes limit access to technology and high-quality raw materials from abroad. (Sharma & Kota, 2019).

Another problem that is no less important is the shortage of skilled labor. Even though Indonesia has a large workforce, the quality and skills of the workforce often do not meet the needs of the modern manufacturing industry (Suteja et al., 2023). Lack of adequate education and training results in low productivity and product quality. To overcome this problem, companies need to invest in employee training and development programs, which of course requires additional costs and a lot of time (Ogunlusi & Obademi, 2021). Much research has been conducted on investment decisions covering various aspects that influence investment decision making. The research (Sulistyo & Sulistyowati, 2022)highlights the impact of macroeconomic factors such as inflation, interest rates and exchange rates on investment decisions in the manufacturing sector in Indonesia. The results show that inflation and interest rates have a significant negative impact, while the impact of the exchange rate varies depending on the sector studied. Furthermore, further research (Noor et al., 2022)examines the impact of government policies, such as tax incentives and deregulation, on foreign investment. This research finds that tax incentives significantly increase interest in foreign investment, although bureaucratic obstacles and inconsistent regulations remain major challenges for foreign investors. Research (Amar & Arkum, 2023)shows that better access to transport and energy infrastructure significantly increases investment, emphasizing the importance of cooperation between the public and private sectors in infrastructure development. Lastly, research (Kamal & Apriani, 2022)examines fintech and blockchain on investment decisions in the financial sector. This research finds that the adoption of digital technology makes it easier to access information and transactions, which in turn increases investor interest and participation. However, trust in the security of technology remains a key factor in investment decision making. These five studies together provide comprehensive insight into the various factors that influenced investment decisions in this period.

This research provides novelty in terms of investment decision making, the author tries to explain things related to the company's ability to manage its profitability in investment decisions and how the government's monetary policy influences the investment policy of manufacturing companies in Indonesia. Research on the influence of profitability and monetary policy on investment decisions of manufacturing companies in Indonesia has the main objective of understanding how these factors influence company investment behavior. Profitability, which is measured through indicators such as Return on Assets (ROA) and Return on Equity (ROE), is a measure of a company's financial performance that shows how effective the company is in generating profits from its assets and equity. Monetary policy, set by Bank Indonesia, includes instruments such as interest rates, credit policy, and inflation control which can directly affect a company's cost of capital and liquidity. The main objective of this research is to analyze the extent to which company profitability influences investment decisions. Companies that have high profitability tend to have more internal funds to reinvest in new projects, which can increase production capacity and operational efficiency. In addition, this research aims to evaluate how monetary policy influences investment decisions. For example, a decrease in interest rates can reduce borrowing costs, thereby encouraging companies to increase investment in fixed assets or business expansion. The benefits of this research are quite significant. First, for company management, the results of this research can provide insight into the importance of maintaining high profitability to support a sustainable investment strategy. Managers can use these findings to make better decisions in allocating resources to projects that add the greatest value to the company. Second, for policy makers, this research can provide empirical evidence regarding the impact of monetary policy on the manufacturing sector, thereby helping in designing more effective policies to encourage investment and economic growth. Apart from that, this research is also useful for investors and financial analysts, because it can provide clearer information about the factors that influence investment decisions in the manufacturing sector. By understanding the influence of profitability and monetary policy, investors can make more informed decisions about their portfolio allocation. Overall, this research contributes to a better understanding of investment dynamics in Indonesia's manufacturing sector, which is one of the important sectors in the country's economy.

METHOD

The approach used in this research is quantitative, with the aim of measuring the relationship between independent variables (profitability and monetary policy) and dependent variables (investment decisions). Quantitative research allows statistical analysis that can provide objective and generalizable results. The population in this study were all manufacturing companies listed on the Indonesia Stock Exchange (BEI) during the research period. Samples were taken using a purposive sampling method, namely by selecting companies that met certain criteria such as the availability of complete financial data and were actively operating during the research period. The sample may consist of manufacturing companies that publish annual financial reports consistently from 2018 to 2022. Data analysis was carried out using multiple regression techniques to test the influence of profitability and monetary policy on investment decisions. The regression model used will identify how much each independent variable contributes to the dependent variable. This analysis is carried out with the help of statistical software such as SPSS.

RESULTS

Descriptive Analysis

Descriptive statistical analysis aims to provide an explanation of the percentages and average values of the variables used in this research.

Table 1 Descriptive Statistical Analysis Table

	N	Minimum	Maximum	Mean	Std. Deviation
ROA	48	0.002	0.772	0.23151	0.255182
ROI	48	0.062	0.966	0.23410	0.297136
KM	48	2.25	8,850	0.72500	0.826011
KI	48	0.261	0.719	0.20188	0.528291

Source: processed by the author

Based on the results of descriptive statistical tests in the table above, it shows that profitability (ROA) has an average value of 0.23151 and a standard deviation of 0.255182. Profitability (ROI) has an average value of 0.23410 and a standard deviation of 0.297136. Monetary Policy as measured by interest rates has an average value of 0.72500 with a standard deviation of 0.826011. Investment decisions have an average value of 0.20188 with a standard deviation of 0.528291.

Multiple Linear Regression Analysis

Multiple linear regression analysis is used to test the first to fourth hypotheses to test and determine the influence of the independent variable on the dependent variable.

Table 2 Multiple Linear Regression Analysis
Coefficientsa

	Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	,519	.135		5,483	,671
	ROA	,319	,171	,289	2,942	,000
	ROI	,371	,182	,482	3,833	,001
	KM	,291	,190	,984	2,948	,003

Dependent variable: Investment decisions

From the table above, the regression equation obtained is as follows:

KI = 0.519 + 0.319ROA + 0.371ROI + 0.291KM

The given multiple linear regression equation is:

1. The constant value is 0.519 which indicates that if profitability (ROA and ROI) and monetary policy (KM) do not contribute, then investment decisions (KI) have a value of 0.519.
2. The ROA coefficient value shows 0.319, which means that every one unit increase in ROA will increase investment decisions (KI) by 0.319 units, assuming other variables are constant. This indicates that profitability as measured by return on assets has a positive influence on investment decisions of manufacturing companies.
3. The ROI coefficient value shows 0.371, which means that every one unit increase in ROI will increase investment decisions (KI) by 0.371 units, assuming other variables are constant. This means that higher returns on investment encourage companies to make more investments, as they see the potential for greater returns.
4. The KM coefficient value shows 0.291, which means that every one unit increase in monetary policy (measured through relevant indicators such as interest rates will increase investment decisions (KI) by 0.291 units, assuming other variables are constant. This shows that monetary policy is more conducive (for example, lower interest rates) encourage firms to increase their investments.

Partial Test (t)

The t statistical test is used to determine whether or not there is an influence of each independent variable individually on the dependent variable which is tested at a significance level of 0.05.

Table 3 t test results

	Model	B	t	Sig.
1	(Constant)	,519	5,483	,671
	ROA	,319	2,942	,000
	DAR	,371	3,833	,001
	DPR	,291	2,948	,003

Dependent variable: Investment decisions

Profitability

Based on table 3 above, ROA shows a calculated t value of 2.942 with a sig value of 0.00, which is smaller than 0.05, so it can be concluded that profitability as measured by ROA has a significant effect on investment decisions. ROI shows a calculated t value of 3.833 with a sig value of 0.01, which is smaller than 0.05, so it can be concluded that profitability as measured by ROI has a significant effect on investment decisions. Monetary Policy shows a calculated t value of 2.948 with a sig value of 0.03, which is smaller than 0.05, so it can be concluded that investment decisions as measured by interest rates have a significant effect on investment decisions.

DISCUSSION

The Influence of ROI on Investment Decisions

Based on the results of data analysis, it is known that ROI influences investment decisions. Return on Investment (ROI) is a key indicator used by companies to measure the efficiency and profitability of an investment. ROI provides an idea of how much profit is obtained from the investment made, compared to the costs incurred. The influence of ROI on investment decisions is very significant, because a high ROI value indicates that the investment provides profitable results and is commensurate with the risk taken. Conversely, a low or negative ROI value may indicate that the investment is not providing the expected returns, and may need to be reconsidered or stopped (Saragih et al., 2017). Manufacturing companies in Indonesia that have high ROI encourage management to make more investments, either in the form of expanding production capacity, developing new products, or increasing operational efficiency. Companies with a high ROI usually have more internal funds that can be reinvested into the business, increasing growth opportunities and competitiveness. Additionally, a positive ROI also provides a good signal to investors and other stakeholders about the company's financial health, which in turn can increase their trust and support for the company's investment plans.

The Influence of ROI on Investment Decisions

Based on the results of data analysis, it was found that ROI had an influence on investment decisions. The influence of Return on Investment (ROI) on investment decisions is very important in the company's strategic context. ROI is a measure used to evaluate the efficiency and profitability of an investment by comparing the profits obtained with the costs incurred. In general, a high ROI indicates that the investment produces significant profits compared to the costs incurred, while a low or negative ROI indicates that the investment is less efficient or even detrimental. In the manufacturing industry, companies use ROI as one of the main criteria in making investment decisions (Dahrani & Nainggolan, 2023). A high ROI tends to encourage management to prioritize and allocate more resources to projects that promise greater returns. This may include expanding production capacity, developing new products, or investing in technology that improves operational efficiency. By optimizing ROI, companies can maximize the added value of every dollar invested, increase competitiveness and create stronger market share (Fajarini et al., 2023). Apart from that, good ROI also plays an important role in attracting potential investors and financiers (Gunawan, 2019). Investors tend to choose companies with a strong ROI track record because this reflects good management in managing capital and generating consistent returns. This investor confidence can then support the company in gaining access to the financial resources necessary for long-term growth.

The Influence of Monetary Policy on Investment Decisions

Based on the results of data analysis, it was found that monetary policy influences investment decisions. The influence of monetary policy on investment decisions is a crucial factor in a country's economy, including Indonesia. Monetary policy includes various steps taken by the central bank, such as setting benchmark interest rates, controlling inflation, and regulating liquidity in financial markets. In the manufacturing industry, monetary policy plays an important role in shaping economic conditions that support or limit investment activity. The benchmark interest rate is one of the main instruments in monetary policy (Achmad Fauzi et al., 2023). A decrease in interest rates can encourage companies to increase investment by making borrowing costs cheaper. This reduces the company's financial burden and encourages the use of more capital for expansion, increasing production capacity, or developing new projects. Conversely, rising interest rates can discourage investment due to higher borrowing costs, which reduces the net profits from investment projects. Overall, effective monetary policy can contribute significantly to encouraging corporate investment activities, optimizing the use of resources, and creating a business environment conducive to economic growth. Therefore, proper monitoring and adjustment of monetary policy by monetary authorities is critical in supporting sustainable investment and improving overall economic prosperity.

CONCLUSION

Based on the results of research on the influence of profitability and monetary policy on investment decisions of manufacturing companies in Indonesia, several conclusions can be drawn, namely that company profitability, which is measured through indicators such as Return on Assets (ROA) and Return on Equity (ROI), has a positive influence on investment decisions. Companies with high profitability tend to be better able to allocate resources into new investments or expansion, which in turn can increase their production capacity and operational efficiency. Furthermore, monetary policy implemented by Bank Indonesia plays an important role in shaping the investment climate. A decrease in the benchmark interest rate tends to encourage companies to make more investments by making borrowing costs more affordable. On the other hand, less conducive policies such as increasing interest rates can discourage investment by making capital costs higher and reducing net profits from investment. Thus, the conclusion of this research confirms that both profitability and monetary policy have a crucial role in determining the direction and volume of investment in manufacturing companies in Indonesia.

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