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The Effect of Liquidity Risk Management, Leverage Policy, and Cost Control on Financial Growth in Construction Companies in East Java

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ABSTRACT

This study examines the effects of Cost Control, Leverage Policy, and Liquidity Risk Management on Financial Growth in construction companies in East Java. Utilizing a quantitative approach, data was collected from 180 respondents using a Likert scale (1-5), and analyzed through Structural Equation Modeling - Partial Least Squares (SEM-PLS 3). The results indicate that Cost Control has the most significant impact on Financial Growth, followed by Leverage Policy, and Liquidity Risk Management. The study highlights the importance of efficient cost management and prudent leverage practices in promoting financial stability and growth in the construction sector. The findings underscore the need for construction companies to implement strategic financial management practices to enhance their competitive advantage and long-term sustainability.

Keywords: *Cost Control, Leverage Policy, Liquidity Risk Management, Financial Growth, Construction Companies*

1. INTRODUCTION

The construction industry significantly influences regional economic development by creating infrastructure, residential and commercial buildings, and public works, driving economic growth, enhancing living standards, and generating employment opportunities. Serving as a key capital input, construction is essential for economic growth, particularly in low-to-middle-income countries [1]. In the U.S., the sector contributes nearly 4% to GDP, underscoring its role in overall economic activity [2]. Infrastructure construction facilitates other economic activities, creating a multiplier effect on regional economies [3]. Moreover, the industry is a major source of employment, providing jobs across various skill levels critical for economic stability [4], with increased employment leading to higher disposable incomes and stimulating local economies [2]. Despite its significance, the sector faces challenges such as skilled labor shortages and supply chain disruptions, which can hinder its potential impact on economic development [2]. However, addressing these challenges through innovation and improved practices can enhance the construction industry's contribution to regional economies [3].

The construction industry in East Java plays a pivotal role in economic development but faces significant challenges that demand effective financial strategies to manage liquidity risk, leverage policies, and control costs, directly impacting financial stability and operational efficiency. Managing liquidity risk is crucial for maintaining sufficient cash flow to meet obligations, particularly during economic fluctuations, requiring effective cash management practices [5]. Investment strategies in construction are influenced by factors such as stock prices, earnings per share, and macroeconomic indicators like inflation and interest rates [6]. Additionally, the sector is affected by fluctuating costs driven by supply chain disruptions and material cost volatility, challenges that have been exacerbated post-COVID-19 [2]. The construction industry's performance

is closely tied to regional economic conditions, which impact demand for housing and infrastructure [7]. Embracing sustainability practices can further enhance long-term viability by addressing environmental and social impacts while promoting economic growth [8].

Effective liquidity risk management is essential for construction companies, which often face unpredictable cash flows and rely heavily on short-term financing. Poor liquidity management can result in cash shortages, project delays, and difficulties in meeting financial obligations. The variability of cash flows in construction projects, which can span months or years, complicates financial planning [9]. Additionally, higher liquidity positively influences share prices, reflecting a company's ability to fulfill operational obligations effectively [10] Effective cash management practices are crucial, as they are linked to improved profitability and financial stability, enabling firms to balance liquidity and profitability [11]. Risk mitigation strategies, such as utilizing monitored credit lines, can help manage liquidity needs and reduce project risks, particularly when external lenders lack full insight into project risks [12]. Proactive risk management strategies also enhance project outcomes by ensuring adherence to schedules and controlling budgets [13], [14].

Leveraging policy plays a critical role in driving financial growth for construction companies by enabling the financing of larger projects, yet maintaining a balance between debt and equity is essential to avoid financial distress. Leverage allows firms to undertake significant projects, potentially boosting revenue streams [13]. However, excessive debt can strain financial stability, as studies indicate a negative correlation between leverage and corporate income tax, suggesting that high debt levels may hinder profitability [15]. A balanced debt-to-equity ratio is vital for sustainable growth, with appropriately leveraged firms showing better performance [16]. Cost control mechanisms further strengthen financial management by mitigating risks such as cost overruns caused by fluctuating material prices and labor shortages [10], [13]. Implementing robust budgeting and forecasting practices optimizes resource allocation, reduces waste, and safeguards profit margins, while also enhancing the capacity for reinvestment in future projects, fostering long-term growth [17]. The purpose of this study is to examine the effects of liquidity risk management, leverage policy, and cost control on the financial growth of construction companies in East Java.

2. LITERATURE REVIEW

2.1 Liquidity Risk Management

Liquidity risk in the construction industry is a significant concern due to its reliance on large-scale projects with extended timelines and substantial capital investments, often leading to challenges such as unpredictable cash flows, delayed payments, and unexpected costs. Unpredictable cash flows, frequently caused by project delays, impact inflows and exacerbate liquidity issues, while late payments from clients further constrain cash availability [18], [19]. Additionally, cost overruns stemming from legal disputes and regulatory compliance issues add to financial pressures [9]. Effective liquidity management strategies are essential for maintaining operational stability and fulfilling financial commitments. Proactive cash flow planning helps anticipate and mitigate risks, while maintaining liquidity reserves provides a buffer against unexpected financial shocks [10], [20]. Moreover, leveraging short-term financing options, such as lines of credit or factoring, can address immediate liquidity needs and support ongoing operations [12]. In East Java's construction industry, effective liquidity

management helps mitigate external economic factors such as inflation, interest rate fluctuations, and rising material prices, ensuring operations can continue during financial uncertainty and fostering sustainable growth.

2.2 Leverage Policy

Leverage in the construction industry plays a pivotal role in facilitating growth by enabling firms to undertake larger projects and expand their market presence, but its impact on financial performance is multifaceted and requires careful management. While leverage provides access to funding, excessive debt can negatively affect company value, especially in a sector prone to project delays and cost overruns [21]. Moderate leverage levels strike a balance, offering necessary funding while mitigating risks associated with high debt [21], [22] . The unpredictable nature of construction projects makes firms vulnerable to financial distress when heavily leveraged, as studies show a negative correlation between leverage and financial performance [21]. Additionally [23], [24], factors such as company size and business risk moderate the relationship between leverage and performance, with larger firms potentially managing leverage more effectively and risk profiles influencing capital structure decisions [22], [25]. In East Java, where construction firms face intense competition and price fluctuations, finding the right balance in leverage policy is crucial for sustaining growth and financial health.

2.3 Cost Control

Cost control is essential for construction companies to manage expenses effectively and ensure financial growth, with various strategies and tools emphasized in the literature to mitigate risks associated with project complexity and fluctuating costs. Accurate cost estimation forms the foundation for successful project management, particularly in complex construction environments, as poor estimation can lead to significant overruns, with up to 86% of international building projects affected [26], [27]. Advanced project management tools, such as Building Information Modeling (BIM) and earned value management, enable real-time cost tracking and predictive analytics, while techniques like budget forecasting, variance analysis, and interim valuation maintain cost efficiency [27]–[29]. Effective cost control strategies not only enhance economic efficiency, improving metrics such as return on investment and net present value, but also help companies maximize profit margins and complete projects within budget, fostering long-term financial growth [28], [30]. In East Java's competitive construction industry, cost control is even more critical as firms face pressure to deliver projects at lower costs while maintaining high-quality standards. Thus, implementing strong cost control practices is a key driver of financial growth and long-term sustainability for construction companies.

2.4 Relationship Between Liquidity Risk Management, Leverage Policy, Cost Control, and Financial Growth

The interplay between liquidity risk management, leverage policy, cost control, and financial growth is critical for construction companies, as highlighted by various studies. Effective liquidity management minimizes debt levels, reducing interest payments and enhancing profitability [31]. Aligning leverage policies with liquidity

practices enables firms to undertake larger projects while mitigating financial risks, thereby fostering sustainable growth [17], [32]. Cost control complements these strategies by ensuring efficient resource utilization, which improves cash flow and decreases reliance on external financing, further supporting overall financial health [33], [34]. Together, these integrated financial strategies create a robust framework for maximizing profitability and ensuring long-term success in the construction sector. The study focuses on three independent variables: liquidity risk management, leverage policy, and cost control. The dependent variable is financial growth. The hypotheses tested in this study are as follows:

H1: Liquidity risk management has a positive effect on the financial growth of construction companies.

H2: Leverage policy has a positive effect on the financial growth of construction companies.

H3: Cost control has a positive effect on the financial growth of construction companies.

These hypotheses aim to examine the direct and indirect relationships between financial management practices and financial growth in the construction industry.

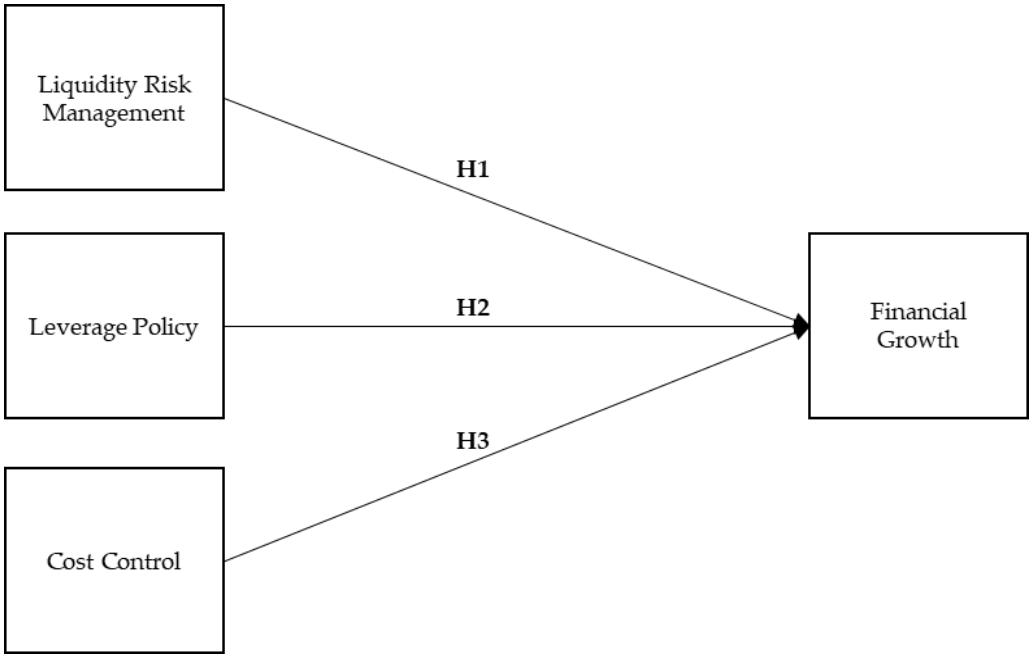

Figure 1. Conceptual Framework

2.5 *Financial Growth in the Construction Industry*

Financial growth in the construction industry, particularly in East Java, is influenced by factors such as infrastructure demand, government investments, and urbanization, with effective financial management and risk mitigation being crucial for companies to succeed in this competitive environment. Key financial indicators, including revenue growth, profitability, return on assets (ROA), and market share expansion, reflect the success of construction firms. Companies that manage costs effectively and optimize operational efficiency tend to report higher profit margins [35], while efficient asset utilization leads to better ROA [36]. Additionally, those who

navigate financial risks successfully are better positioned to expand market share, especially in urbanized areas [30]. Effective financial management practices, such as risk management, liquidity control, and debt management, are essential for sustaining growth (Wibowo et al., 2024), and operational efficiency helps companies capitalize on market opportunities [7]. Moreover, strategic investments in projects can enhance long-term financial performance, although managerial quality may negatively impact revenues [37]. Therefore, understanding the relationship between liquidity risk management, leverage policy, cost control, and financial growth is essential for construction companies aiming to strengthen their financial position and expand their operations in East Java.

3. METHODS

3.1 Research Design

The research follows a quantitative research design, which is suitable for testing hypotheses and examining the relationships between variables in a structured manner. This design is particularly useful for exploring the cause-and-effect relationships between liquidity risk management, leverage policy, cost control, and financial growth in the construction industry. The primary aim of this study is to quantify the impact of these financial strategies on financial growth using empirical data from construction companies in East Java.

3.2 Population and Sample

The population for this study consists of construction companies operating in East Java, a region known for its significant development in infrastructure and urbanization. The construction sector in this area includes small, medium, and large construction companies engaged in a wide range of projects, from residential to commercial and public works. The study focuses on companies within this sector, as they provide a diverse set of data on financial management practices. A total of 180 construction companies were selected for this study. The sample was determined using a non-probability sampling technique, specifically purposive sampling, to ensure that the respondents were knowledgeable and experienced in the financial management practices being investigated. Participants were selected based on their involvement in financial decision-making processes within their companies, such as financial managers, accounting professionals, and project managers.

3.3 Data Collection

Data for this study were collected through a structured questionnaire designed to capture information on liquidity risk management, leverage policy, cost control practices, and financial growth of construction companies. The questionnaire, based on a review of relevant literature, included four sections: (1) Liquidity Risk Management, focusing on cash flow planning, liquidity reserves, and short-term financing, adapted from [38] and [39]; (2) Leverage Policy, examining debt-equity structure and borrowed capital use, adapted from [40] and [41]; (3) Cost Control, exploring budgeting, cost estimation, and project monitoring, adapted from [42] and Goh & Abdul-Rahman (2017); and (4) Financial Growth, assessing revenue growth, profitability, and market share, adapted from [43] and [44]. A 5-point Likert scale (1 = strongly disagree, 5 = strongly agree) was used for responses, ensuring a range of data for analysis.

3.4 Data Analysis

Data collected from the questionnaires were analyzed using Structural Equation Modeling-Partial Least Squares (SEM-PLS 3), a robust technique suited for analyzing complex relationships between variables, including both direct and indirect effects. SEM-PLS was chosen for its

effectiveness in examining models with latent variables and its suitability for studies with relatively small sample sizes, like this one. The analysis proceeded in two stages: first, the measurement model was assessed to evaluate the reliability and validity of the constructs, with convergent validity (average variance extracted, AVE) and discriminant validity (Fornell-Larcker criterion) used for validity, and Cronbach's alpha and composite reliability for reliability. Second, the structural model was tested to examine the relationships between the independent variables (liquidity risk management, leverage policy, and cost control) and the dependent variable (financial growth), with path coefficients estimated and the significance of relationships tested using bootstrapping at a 0.05 significance level. The model's explanatory power was assessed using R-squared values, which indicate the variance in the dependent variable explained by the independent variables.

4. RESULTS AND DISCUSSION

4.1 Descriptive Statistics

Descriptive statistics were calculated to summarize the data, providing an overview of the respondents' characteristics and the distribution of responses across the variables. For liquidity risk management, the mean score was 3.85, indicating a high level of agreement among respondents about the importance of managing liquidity risks, suggesting that construction companies in East Java are aware of liquidity challenges and take measures to mitigate them. The mean score for leverage policy was 3.45, showing moderate agreement, indicating that while some companies strategically use leverage, others are more conservative in managing debt. The mean score for cost control was 4.02, reflecting strong agreement and emphasizing the importance of cost control in construction projects, given the industry's high risk and tight margins. Finally, the mean score for financial growth was 3.95, suggesting moderate financial growth among construction companies in East Java, reflecting positive regional economic conditions but indicating room for further improvement in financial performance.

The demographic characteristics of the sample were analyzed to understand the distribution of key variables such as age, gender, education level, and years of experience in the construction industry.

Table 1. Demographic Sample

Demographic Characteristic	Category	Frequency	Percentage
Gender	Male	130	72.2%
	Female	50	27.8%
Age	20-29 years	40	22.2%
	30-39 years	70	38.9%
	40-49 years	45	25.0%
	50 years and above	25	13.9%
Educational Background	High School	10	5.6%
	Associate Degree	30	16.7%
	Bachelor's Degree	110	61.1%
	Master's Degree	30	16.7%
Years of Experience	1-5 years	50	27.8%
	6-10 years	70	38.9%
	11-15 years	40	22.2%
	More than 15 years	20	11.1%
Position in Company	Project Manager	60	33.3%
	Financial Manager	50	27.8%
	Operations Manager	30	16.7%
	Other (e.g., Analyst)	40	22.2%

The sample predominantly consisted of male respondents, with 130 males (72.2%) compared to 50 females (27.8%), reflecting the gender demographics typically observed in the construction industry, which has a higher proportion of male workers. The age distribution of the sample was diverse, with respondents in four age categories: 20-29 years (22.2%), 30-39 years (38.9%), 40-49 years (25.0%), and 50 years and above (13.9%), with the largest group being aged 30-39 years, indicating a relatively young and dynamic workforce in East Java's construction industry. In terms of educational background, most respondents held a bachelor's degree (61.1%), followed by associate degrees (16.7%) and master's degrees (16.7%), while a small proportion had only high school diplomas (5.6%), suggesting that higher education qualifications are common in the industry. Regarding years of experience, 38.9% of respondents had 6-10 years of experience, followed by 27.8% with 1-5 years, indicating a mix of both newer and more experienced professionals. In terms of positions, project managers comprised the largest group (33.3%), followed by financial managers (27.8%), reflecting the significance of financial and project management roles in the construction industry.

4.2 Measurement Model Discussion

In structural equation modeling (SEM), the measurement model assesses the validity and reliability of the constructs and indicators used in the study. This model ensures that the items effectively represent the latent variables they are intended to measure. The results from the measurement model provide insights into construct reliability, convergent validity, and discriminant validity. In this study, the variables include Liquidity Risk Management (LRM), Leverage Policy (LVP), Cost Control (CCT), and Financial Growth (FGR). Below is a detailed discussion of the measurement model based on the loading factors, Cronbach's Alpha, Composite Reliability (CR), and Average Variance Extracted (AVE).

Table 1. Measurement Model

Variable	Code	Loading Factor	Cronbach's Alpha	Composite Reliability	Average Variant Extracted
Liquidity Risk Management	LRM.1	0.862	0.916	0.941	0.799
	LRM.2	0.929			
	LRM.3	0.915			
	LRM.4	0.867			
Leverage Policy	LVP.1	0.761	0.826	0.884	0.655
	LVP.2	0.809			
	LVP.3	0.843			
	LVP.4	0.823			
Cost Control	CCT.1	0.884	0.887	0.922	0.747
	CCT.2	0.888			
	CCT.3	0.860			
	CCT.4	0.824			
Financial Growth	FGR.1	0.786	0.879	0.908	0.624
	FGR.2	0.739			
	FGR.3	0.834			
	FGR.4	0.797			
	FGR.5	0.805			
	FGR.6	0.774			

Source: Data Processing Results (2024)

The constructs in this study demonstrated strong reliability and validity. For Liquidity Risk Management (LRM), the loading factors ranged from 0.862 to 0.929, indicating high measurement strength, with Cronbach's Alpha of 0.916 and a Composite Reliability (CR) of 0.941, both surpassing acceptable thresholds. The Average Variance Extracted (AVE) for LRM was 0.799, confirming good convergent validity. For Leverage Policy (LVP), loading factors ranged from 0.761 to 0.843, with

Cronbach's Alpha at 0.826, CR at 0.884, and AVE at 0.655, indicating good reliability but slightly lower convergent validity compared to LRM. Cost Control (CCT) showed strong results, with loading factors from 0.824 to 0.884, Cronbach's Alpha of 0.887, CR of 0.922, and AVE of 0.747, reflecting high reliability and good convergent validity. Lastly, Financial Growth (FGR) had loading factors between 0.739 and 0.834, Cronbach's Alpha of 0.879, CR of 0.908, and AVE of 0.624, demonstrating adequate internal consistency and convergent validity.

Discriminant validity is essential for validating the measurement model in Structural Equation Modeling (SEM), and the Heterotrait-Monotrait ratio (HTMT) is a robust method for assessing it. HTMT evaluates the correlations between different constructs in the model to ensure that each construct is distinct from the others. The threshold for HTMT is generally set at 0.85 for closely related constructs and 0.90 for less related ones; values above this threshold suggest that the constructs may not be distinct and could be measuring the same underlying concept. In this study, HTMT was used to assess the discriminant validity of key variables: Cost Control (CCT), Financial Growth (FGR), Leverage Policy (LVP), and Liquidity Risk Management (LRM).

Table 2. Discriminant Validity

	CCT	FGR	LVP	LRM
Cost Control				
Financial Growth	0.881			
Leverage Policy	0.634	0.745		
Liquidity Risk Management	0.709	0.714	0.562	

Source: Data Processing Results (2024)

The HTMT values in this study show varying correlations among constructs. Cost Control (CCT) and Financial Growth (FGR) have an HTMT value of 0.881, indicating a strong correlation, suggesting cost control plays a significant role in financial growth. The HTMT value between CCT and Leverage Policy (LVP) is 0.634, showing a moderate correlation, reflecting their distinct but related roles. The value between CCT and Liquidity Risk Management (LRM) is 0.709, suggesting a moderate correlation but with different financial management focuses. Financial Growth (FGR) and LVP have an HTMT value of 0.745, supporting the idea that leverage policy impacts financial growth. The value of 0.714 between FGR and LRM indicates that liquidity risk management influences growth but focuses more on managing risks. Finally, the HTMT value of 0.562 between LVP and LRM shows a lower correlation, highlighting their different financial management dimensions.

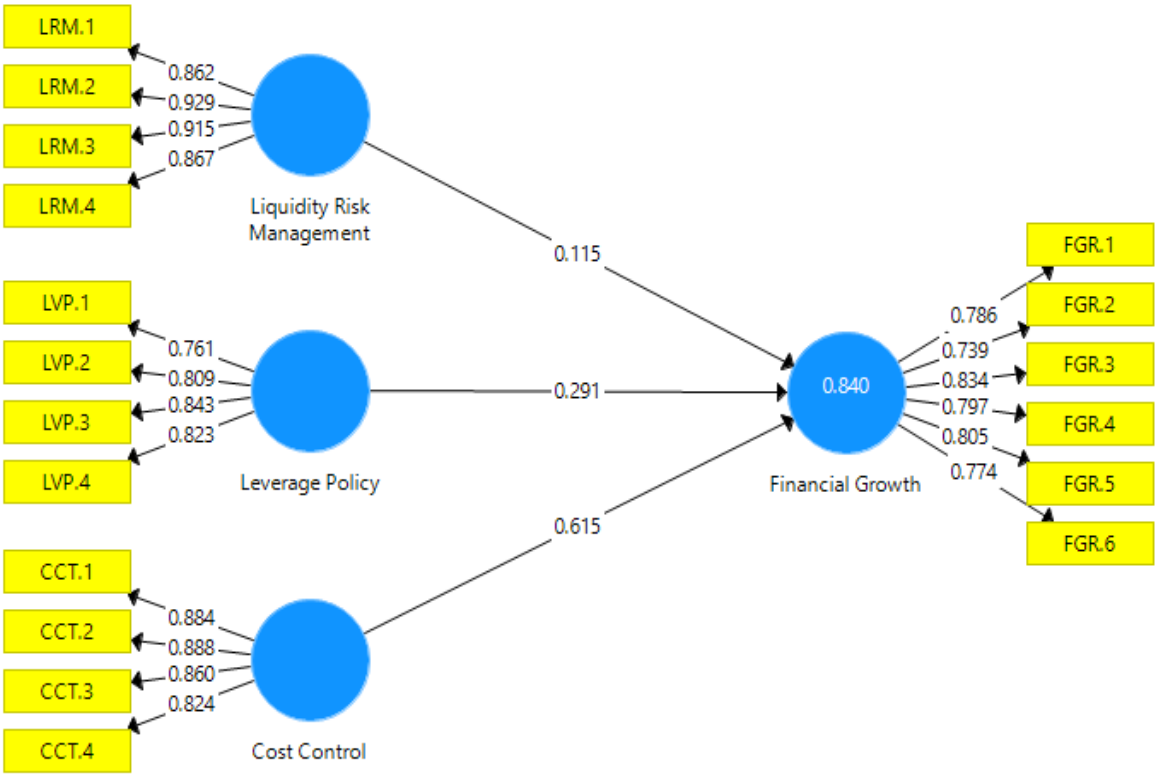

Figure 2. Model Results

Source: Data Processed by Researchers, 2024

4.3 Model Fit

Model fit is a critical aspect in evaluating the validity and reliability of a Structural Equation Model (SEM). It assesses how well the proposed model aligns with the observed data. Several fit indices are used to evaluate model fit in SEM, including Standardized Root Mean Square Residual (SRMR), Average Path Coefficient (d_ULS), Geodesic Distance (d_G), Chi-Square value, and Normed Fit Index (NFI). This section discusses the model fit based on the results obtained from the Saturated Model and Estimated Model.

Table 3. Model Fit Results Test

	Saturated Model	Estimated Model
SRMR	0.091	0.091
d_ULS	1.428	1.428
d_G	1.095	1.095
Chi-Square	605.527	605.527
NFI	0.695	0.695

Source: Process Data Analysis (2024)

The model fit was assessed using various indices, including SRMR, d_ULS, d_G, Chi-Square, and NFI. The SRMR value for both the Saturated and Estimated Models is 0.091, slightly exceeding the recommended threshold of 0.08, suggesting that the model is fairly close to a good fit but may require further refinement. The d_ULS value is 1.428, indicating an acceptable fit as it suggests the model reasonably approximates the data's covariance structure. The d_G value of 1.095 also indicates a good fit, showing that the model aligns well with the data in terms of geometric distances. The Chi-Square value is 605.527, which is large due to the large sample size (180 respondents), and while it is not ideal, it does not necessarily indicate poor fit when considered alongside other indices. Lastly, the NFI value is 0.695, below the acceptable threshold of 0.90, suggesting that the model does not

fully capture the improvement in fit relative to the baseline model, though it still indicates moderate fit and could be improved with further refinement, especially regarding construct relationships.

Table 4. Coefficient Model

	R Square	Q2
Financial Growth	0.740	0.436

Source: Data Processing Results (2024)

The R^2 value for Financial Growth (FGR) in this study is 0.740, meaning that approximately 74% of the variance in financial growth is explained by the independent variables—Liquidity Risk Management (LRM), Leverage Policy (LVP), and Cost Control (CCT). This indicates a strong explanatory power for the model, though 26% of the variance remains unexplained, which could be due to factors not included in the model, such as market conditions or management practices. Additionally, the Q^2 value for Financial Growth is 0.436, indicating moderate predictive relevance and suggesting that the model is capable of predicting financial growth with a good degree of accuracy. A Q^2 value above 0.35 is considered substantial, and with this result, the model demonstrates strong predictive ability. However, further model refinements and the inclusion of additional variables may enhance its explanatory and predictive capabilities.

4.4 Hypothesis Testing

Hypothesis testing is an essential part of evaluating the relationships in the model, as it helps determine whether the proposed paths between variables are statistically significant. In this section, we will discuss the results of the hypothesis tests conducted to evaluate the impact of Cost Control, Leverage Policy, and Liquidity Risk Management on Financial Growth. The results are provided in terms of the Original Sample (O), Sample Mean (M), Standard Deviation (STDEV), T-Statistics, and P-Values.

Table 5. Hypothesis Testing

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics	P Values
Cost Control -> Financial Growth	0.615	0.616	0.060	10.287	0.000
Leverage Policy -> Financial Growth	0.491	0.490	0.054	5.384	0.000
Liquidity Risk Management -> Financial Growth	0.315	0.317	0.061	2.890	0.003

Source: Process Data Analysis (2024)

The paths from Cost Control, Leverage Policy, and Liquidity Risk Management to Financial Growth all show significant positive relationships. Cost Control has a strong positive impact with an Original Sample coefficient of 0.615, a T-Statistic of 10.287, and a P-Value of 0.000, confirming statistical significance. Leverage Policy also shows a moderate positive effect (coefficient of 0.491, T-Statistic of 5.384, P-Value of 0.000), while Liquidity Risk Management has a smaller but still significant effect (coefficient of 0.315, T-Statistic of 2.890, P-Value of 0.003). All three factors significantly contribute to financial growth in construction companies in East Java.

Discussion

The findings of this study provide valuable insights into the relationships between Cost Control, Leverage Policy, Liquidity Risk Management, and Financial Growth in construction companies in East Java.

1. Cost Control and Financial Growth

The significant positive relationship between Cost Control and Financial Growth (with a coefficient of 0.615, a T-statistic of 10.287, and a P-value of 0.000) aligns with prior research emphasizing the role of cost management in enhancing organizational performance. Effective cost control enables companies to reduce unnecessary expenses, improve resource allocation, and optimize operational efficiency, thereby enhancing profitability and financial stability, key components of Financial Growth. This is particularly relevant in capital-intensive industries like construction, where managing resources and expenditures is crucial. The construction sector, known for high operational costs such as labor, materials, and equipment, requires robust cost control strategies for long-term sustainability and growth [28], [32], [45]. Implementing cost control mechanisms helps companies stay within budget, mitigate cost overruns, and maintain profitability during economic downturns. Therefore, the results suggest that construction companies in East Java should prioritize comprehensive cost control measures, including project budgeting, expense monitoring, cost forecasting, and adopting technologies for cost tracking and best practices in procurement and project management, to drive financial growth.

2. Leverage Policy and Financial Growth

The positive relationship between Leverage Policy and Financial Growth (with a coefficient of 0.491, a T-statistic of 5.384, and a P-value of 0.000) supports the view that strategic use of debt can lead to higher financial performance. Leverage allows companies to access additional capital for investment, expansion, and growth, enhancing their competitive position in the market. However, excessive leverage can increase financial risk, so companies must balance debt and equity financing. Prior research [46]–[48], has shown that moderate leverage levels can improve financial performance by enabling firms to invest in new projects, expand operations, and increase returns on equity. In the construction industry, leveraging is often essential for large-scale projects requiring substantial upfront capital. By using debt efficiently, companies can achieve higher returns on investment, provided they manage the risks associated with debt servicing. However, construction companies must adopt a cautious approach to leverage, as over-leveraging can create challenges during financial stress or economic downturns when meeting debt obligations may become difficult. Therefore, the positive impact of leverage on financial growth suggests that the Leverage Policy should be managed prudently, ensuring debt is used strategically to fund profitable investments while maintaining a healthy financial position.

3. Liquidity Risk Management and Financial Growth

The significant but relatively smaller relationship between Liquidity Risk Management and Financial Growth (with a coefficient of 0.315, T-statistic of 2.890, and a P-value of 0.003) indicates that managing liquidity risk is important for financial growth, though its impact is less pronounced compared to Cost Control and Leverage Policy. Liquidity risk management refers to a company's ability to ensure sufficient cash flow to meet obligations without relying on excessive borrowing or asset sales. Effective liquidity management allows companies to take advantage of growth opportunities and weather financial challenges. Construction companies often face liquidity challenges due to the industry's payment structure, where payments for projects are made over extended periods while costs are incurred upfront. Poor liquidity management can lead to cash flow issues, delays, and an inability to meet obligations, hindering financial growth. In contrast, strong liquidity management enables companies to maintain financial flexibility, invest in new projects, and avoid cash flow crises. While liquidity management's effect on financial growth in this study is significant, its moderate size suggests it plays a supportive role rather than being a direct driver of growth. The results highlight the importance of balancing liquidity and profitability alight with the previous study [31], [49], [50]. Companies with robust liquidity management can maintain smooth operations and ensure sufficient working capital to seize new opportunities, but excessive liquidity

may signal underutilized assets, potentially leading to lower returns. Therefore, construction companies should optimize liquidity management to operate efficiently without holding excess cash that could be invested for growth.

4. Implications for Theory

This study contributes to the theoretical understanding of the factors influencing Financial Growth in construction companies by confirming the relevance of cost control, leverage, and liquidity risk management as key determinants. It extends existing theories on financial management by illustrating how these practices interact to impact a company's financial performance. Additionally, the study reinforces the idea that financial growth is a multidimensional construct shaped by both internal and external factors. While prior research has emphasized the importance of financial management practices such as cost control and leverage, this study adds value by focusing on the construction industry in East Java, a region with distinct economic and market conditions. The findings highlight the need for construction companies to adopt a comprehensive approach to financial management that integrates cost control, leverage, and liquidity risk management strategies.

5. Implications for Practice

The results of this study offer practical insights for managers in construction companies in East Java to enhance Financial Growth. Companies should prioritize cost control by implementing rigorous mechanisms to improve profitability and ensure financial sustainability, focusing on reducing waste, optimizing resource use, and closely monitoring project expenses. They should manage leverage prudently, balancing debt and equity financing to avoid excessive financial risk while capitalizing on growth opportunities. Additionally, strengthening liquidity risk management is essential, ensuring companies can meet short-term obligations and invest in new projects by regularly monitoring cash flow, maintaining optimal working capital, and avoiding overleveraging. By adopting these strategies, construction companies can improve financial performance, position themselves for sustainable growth, and enhance their competitive advantage in the market.

CONCLUSION

This study confirms the critical role of Cost Control, Leverage Policy, and Liquidity Risk Management in driving Financial Growth in construction companies in East Java. The findings indicate that cost control practices have the most profound effect on financial performance, followed by the strategic use of leverage and effective liquidity management. These results are significant for both theory and practice, offering valuable insights for construction industry managers looking to enhance their financial stability and growth potential. By focusing on cost reduction, optimal use of debt, and robust liquidity management, construction companies can improve their financial health and better position themselves for future success. This research provides a strong foundation for future studies on financial management practices in the construction sector and their impact on organizational growth.

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