

Impact of Middle East Conflict on Financial Performance of Contractor Firms Listed on the Indonesia Stock Exchange

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Abstract

This study examines the impact of the Middle East conflict on the financial performance of contractor companies listed on the Indonesia Stock Exchange (IDX). Escalating geopolitical tensions in the Middle East have contributed to rising energy prices, supply chain disruptions, and increased global financial uncertainty, which may indirectly influence firm-level profitability, particularly in capital-intensive sectors such as construction. This research aims to analyze the effect of internal financial indicators Cash Ratio, Debt to Asset Ratio (DAR), Firm Size, and Inventory Turnover on Return on Assets (ROA) within the context of geopolitical instability. Using a quantitative research design, this study employs panel data derived from the annual financial statements of contractor companies listed on the IDX during the observation period. Multiple regression analysis is utilized to examine both the partial and simultaneous effects of liquidity, leverage, firm size, and operational efficiency on profitability. The findings indicate that internal financial characteristics significantly influence ROA. Liquidity plays an important role in maintaining operational stability, although excessive cash holdings may reduce asset efficiency. Leverage is found to increase financial vulnerability during periods of uncertainty, while larger firms demonstrate greater resilience due to stronger access to capital and diversified operations. Inventory turnover also contributes to profitability by reflecting operational efficiency, although it may be affected by global supply chain disruptions. This study contributes to the literature by integrating external geopolitical risk considerations with firm-level financial ratio analysis in an emerging market context. The results provide practical implications for corporate managers, investors, and policymakers in formulating financial



strategies to enhance resilience against global geopolitical instability, particularly within the construction sector.

Keywords: Geopolitical risk, Middle East conflict, financial performance, Return on Assets, construction companies, Indonesia Stock Exchange.

INTRODUCTION

In recent years, global geopolitical conflicts have escalated significantly, particularly due to the Russia–Ukraine war and the renewed Israel–Palestine conflict since 2023. This escalation is reflected in the sharp increase in the Geopolitical Risk Index (GPR), indicating that global uncertainty remains at levels higher than the pre-pandemic period (Caldara & Iacoviello, 2022). Recent studies also show that rising geopolitical risk significantly affects global financial market volatility and weakens economic stability, especially in emerging economies (Eissa et al., 2024). These conditions create external pressures that are not merely political in nature but also directly influence global economic stability.

The Middle East holds a strategic position in the global economic system, particularly as a major supplier of global energy and as a controller of key international trade routes such as the Strait of Hormuz and the Suez Canal. Instability in this region has historically been correlated with surges in global oil prices (Metta & Ranieri, 2023). Considering that more than one-third of global oil trade passes through this region, armed conflicts or diplomatic tensions have the potential to disrupt global energy supply and trigger commodity price volatility (Alsadan et al., 2025). Therefore, Middle Eastern conflicts are not merely regional issues but have systemic implications for the global economy.

Spikes in oil and gas prices resulting from conflict directly increase global production costs. Energy-intensive sectors such as construction are among the most affected due to their dependence on fuel, transportation, and energy-based materials (Elgayar et al., 2024). Rising energy prices lead to increased costs of construction materials such as cement, steel, and asphalt, which ultimately generate project cost overruns and compress contractors' profit margins. These impacts are more pronounced in developing countries that rely heavily on imported energy.

Several studies indicate that heightened geopolitical risk negatively affects stock market performance and corporate profitability, particularly in emerging markets (Nasouri, 2025). Geopolitical risk increases uncertainty, reduces investor confidence, and tightens financial market liquidity. Moreover, global financial fragmentation triggered by geopolitical tensions raises financing costs and restricts firms' access to credit (Alsadan et al., 2025).

546



These conditions may reduce firms' ability to manage operations and sustain long-term investment activities.

As an emerging market economy, Indonesia is relatively vulnerable to external shocks due to its dependence on imported energy and industrial raw materials. Fluctuations in global oil prices directly affect domestic fiscal and monetary policies, including fuel price adjustments and inflationary pressures. In the construction sector, rising energy prices translate into higher infrastructure project costs, many of which are financed through debt or long-term funding schemes. This situation intensifies financial pressure on contractor firms' capital structures.

Beyond energy price increases, Middle Eastern conflicts also trigger global supply chain disruptions, leading to delays in material shipments and shortages of certain construction components. Such disruptions affect inventory management and operational efficiency, particularly inventory turnover. In times of uncertainty, investors tend to adopt a more cautious stance, influencing infrastructure project realization and investment decisions in the construction sector. Given that construction firms are capital-intensive and typically operate with high leverage, this sector is particularly sensitive to external economic fluctuations.

In this context, financial performance becomes a crucial indicator of business sustainability. Return on Assets (ROA) is widely used to measure management effectiveness in utilizing assets to generate profits. Empirical evidence suggests that geopolitical risk can suppress corporate profitability through increased operational costs and financial risk exposure (Abu Khalaf et al., 2025). For construction firms with substantial asset bases, ROA is particularly relevant in assessing how external pressures affect operational efficiency.

From an internal perspective, financial ratios such as Cash Ratio, Debt to Asset Ratio (DAR), firm size, and Inventory Turnover play significant roles in determining financial performance. Adequate liquidity enables firms to survive during crises; however, excessive liquidity may reduce asset productivity (Elgayar et al., 2024). Meanwhile, high leverage increases financial risk, especially when borrowing costs rise amid global uncertainty (Alsadan et al., 2025). Firm size also influences resilience, as larger firms tend to be more capable of withstanding external shocks compared to smaller firms.

Although research on geopolitical risk and financial performance has expanded considerably, most studies focus on the banking sector and stock markets using cross-country data (Eissa et al., 2024; Nasouri, 2025). Empirical research specifically examining the construction sector, particularly in Indonesia, remains limited. Furthermore, few studies



integrate external geopolitical factors with internal corporate financial ratios within a comprehensive empirical framework.

Based on the above discussion, this study is important to address the existing literature gap regarding the impact of Middle Eastern conflicts on the financial performance of contractor firms listed on the Indonesia Stock Exchange. This research contributes academically by enriching the literature on the integration of geopolitical risk and financial ratio analysis in explaining ROA. Practically, it provides valuable insights for corporate management, investors, and policymakers in formulating risk mitigation strategies amid ongoing global uncertainty.

OBJECTIVES

This study aims to examine the impact of the Middle East conflict on the financial performance of contractor companies listed on the Indonesia Stock Exchange (IDX). Specifically, it seeks to analyze how internal financial indicators—Cash Ratio, Debt to Asset Ratio (DAR), Firm Size, and Inventory Turnover—affect Return on Assets (ROA) within the context of heightened geopolitical uncertainty. By positioning the Middle East conflict as an external macroeconomic shock, this research attempts to understand how such instability influences corporate performance in an emerging market setting.

Furthermore, this study intends to empirically investigate the partial and simultaneous effects of liquidity, leverage, firm size, and operational efficiency on ROA. It explores whether adequate liquidity enhances profitability during periods of uncertainty, whether higher leverage increases financial vulnerability, whether larger firms demonstrate greater resilience, and whether efficient inventory management contributes positively to asset utilization. Through this approach, the research integrates both financial ratio analysis and the broader macroeconomic environment into a unified analytical framework.

Ultimately, this study seeks to contribute to the existing literature by bridging the gap between geopolitical risk studies and firm-level financial performance analysis, particularly within the construction sector in Indonesia. The findings are expected to provide academic contributions to financial management and corporate resilience research, while also offering practical insights for corporate managers, investors, and policymakers in formulating strategic responses to global geopolitical instability.



LITERATURE REIVEW**Geopolitical Risk and Corporate Financial Performance**

Geopolitical risk (GPR) refers to the risk associated with wars, terrorist acts, diplomatic tensions, and political instability that may disrupt economic and financial activities (Caldara & Iacoviello, 2022). The escalation of conflicts in the Middle East has significantly increased global uncertainty, affecting commodity prices, capital flows, and investor confidence. Empirical studies demonstrate that heightened geopolitical risk negatively influences stock market performance and firm profitability, particularly in emerging markets that are more vulnerable to external shocks (Eissa et al., 2024; Nasouri, 2025). Increased uncertainty tends to raise financing costs, tighten liquidity conditions, and reduce investment activities, ultimately suppressing corporate performance. In this context, geopolitical instability may indirectly influence firm-level financial indicators, including profitability and asset utilization efficiency.

Recent literature also highlights that geopolitical tensions contribute to global financial fragmentation, which can disrupt cross-border capital movements and increase borrowing constraints (Alsadan et al., 2025). For firms operating in capital-intensive sectors such as construction, these disruptions may significantly affect financial sustainability. Since construction projects require long-term financing and stable supply chains, geopolitical shocks may amplify operational risk and financial vulnerability. Therefore, understanding how internal financial characteristics interact with external geopolitical pressures becomes crucial in assessing firm performance.

Financial Performance and Return on Assets (ROA)

Financial performance reflects a firm's ability to generate profits from its available resources. One of the most widely used indicators of financial performance is Return on Assets (ROA), which measures how efficiently management utilizes total assets to generate net income. ROA is particularly relevant in asset-intensive industries such as construction, where large capital investments are required to execute long-term projects. Higher ROA indicates better managerial efficiency and stronger operational performance.

Previous studies suggest that macroeconomic uncertainty and external shocks can significantly reduce profitability by increasing operating costs and limiting revenue growth opportunities (Abu Khalaf et al., 2025). In periods of geopolitical instability, firms may face higher raw material costs, fluctuating exchange rates, and constrained access to credit, all of which can adversely affect ROA. Consequently, profitability is not solely determined by



internal management decisions but is also influenced by broader macroeconomic and geopolitical conditions.

Liquidity and Cash Ratio

Liquidity reflects a firm's ability to meet its short-term obligations. The Cash Ratio, which compares cash and cash equivalents to current liabilities, provides a strict measure of liquidity strength. In times of crisis or heightened uncertainty, maintaining adequate liquidity is essential for operational continuity and risk mitigation. Firms with strong liquidity positions are better equipped to absorb shocks and finance urgent operational needs without relying excessively on external borrowing.

However, the relationship between liquidity and profitability is often characterized by a trade-off. While sufficient liquidity enhances financial stability, excessive idle cash may reduce asset productivity and lower returns (Elgayar et al., 2024). Empirical findings regarding the impact of liquidity on ROA remain mixed, with some studies reporting positive effects due to improved financial flexibility, while others suggest negative effects due to inefficiency in asset utilization. Therefore, examining the role of Cash Ratio in the context of geopolitical instability is particularly relevant.

Leverage and Debt to Asset Ratio (DAR)

Leverage represents the extent to which a firm finances its assets through debt. The Debt to Asset Ratio (DAR) measures the proportion of total assets financed by liabilities and reflects financial risk exposure. According to capital structure theories, including the Trade-Off Theory and Pecking Order Theory, leverage decisions influence firm profitability through tax benefits, agency costs, and financial distress risks.

In periods of geopolitical uncertainty, higher leverage may amplify financial vulnerability due to rising borrowing costs and constrained credit markets (Alsdan et al., 2025). Construction companies, which typically rely on long-term debt to finance projects, may face increased default risk when revenue streams become unstable. Prior studies generally find a negative relationship between excessive leverage and profitability, especially during economic downturns. Therefore, DAR is expected to play a significant role in explaining variations in ROA under external shock conditions.

Firm Size and Corporate Resilience

Firm size, commonly measured by total assets or the natural logarithm of total assets, is often associated with competitive advantage and resilience. Larger firms tend to

550



have better access to capital markets, diversified revenue sources, and stronger bargaining power with suppliers and creditors. These characteristics enable them to withstand economic shocks more effectively than smaller firms.

Empirical evidence suggests that firm size positively influences financial performance, particularly during periods of instability, as larger firms possess greater adaptive capacity and operational flexibility (Nasouri, 2025). In the construction sector, large firms may benefit from economies of scale and long-term government contracts, which provide revenue stability. Therefore, firm size is considered an important control variable in assessing financial performance under geopolitical risk conditions.

Inventory Turnover and Operational Efficiency

Inventory Turnover measures how efficiently a firm manages its inventory relative to sales. In the construction industry, efficient inventory management is critical due to the project-based nature of operations and the reliance on timely material delivery. High inventory turnover generally indicates effective resource utilization and cost efficiency.

Geopolitical conflicts, particularly in the Middle East, may disrupt global supply chains, leading to delays in material procurement and increased holding costs. Such disruptions can slow inventory turnover and reduce operational efficiency. Although limited studies directly link geopolitical risk to inventory management performance, supply chain literature suggests that external shocks significantly influence inventory dynamics and, consequently, profitability. Therefore, Inventory Turnover is expected to contribute to explaining variations in ROA in the presence of global uncertainty.

Research Gap

Although prior research extensively examines the relationship between geopolitical risk and financial markets, most studies focus on banking sectors or stock market indices using cross-country data (Eissa et al., 2024; Nasouri, 2025). Limited attention has been given to non-financial sectors, particularly the construction industry in emerging markets such as Indonesia. Moreover, few studies integrate external geopolitical factors with firm-level financial ratios within a single empirical model.

Accordingly, this study seeks to fill this gap by analyzing how internal financial indicators Cash Ratio, DAR, Firm Size, and Inventory Turnover affect ROA within the context of the Middle East conflict. By focusing on contractor companies listed on the Indonesia Stock Exchange, this research contributes to the literature by providing sector-



specific and country-specific empirical evidence, thereby enhancing understanding of corporate resilience in times of geopolitical instability.

DISCUSSION

The findings of this study demonstrate that geopolitical instability in the Middle East has indirect yet significant implications for the financial performance of contractor companies listed on the Indonesia Stock Exchange. The results indicate that internal financial characteristics—liquidity, leverage, firm size, and operational efficiency—play a crucial role in determining how firms withstand external shocks. This supports the argument that while geopolitical risk originates externally, its impact on corporate profitability is mediated through firm-level financial structures and managerial decisions. In line with prior research, heightened geopolitical risk increases uncertainty and financing constraints, thereby affecting profitability outcomes (Caldara & Iacoviello, 2022; Eissa et al., 2024).

Regarding liquidity, the analysis suggests that the Cash Ratio has a significant relationship with ROA. Firms with adequate liquidity appear better positioned to maintain operational stability during periods of uncertainty. This finding is consistent with the financial flexibility argument, which posits that liquidity acts as a buffer against external shocks. However, the magnitude and direction of the relationship indicate that excessive liquidity may reduce profitability due to inefficient asset allocation. This supports the liquidity–profitability trade-off theory, which states that while liquidity enhances short-term solvency, idle cash holdings may lower returns on total assets (Elgayar et al., 2024).

The results further show that the Debt to Asset Ratio (DAR) significantly affects ROA, suggesting that leverage plays a critical role in shaping corporate resilience during geopolitical turmoil. Higher leverage levels tend to increase financial risk, especially when borrowing costs rise amid global uncertainty. This finding aligns with the Trade-Off Theory, which emphasizes the balance between tax benefits of debt and the potential costs of financial distress. In the context of the construction sector where projects are capital-intensive and often financed through debt excessive leverage may amplify vulnerability to revenue volatility and delayed project execution. These results are consistent with prior studies indicating that geopolitical uncertainty exacerbates financing constraints and negatively affects firm profitability (Alsadan et al., 2025).

Firm size is also found to have a significant influence on ROA, suggesting that larger contractor firms demonstrate greater resilience during periods of geopolitical instability. Larger firms generally possess diversified revenue streams, stronger access to capital



markets, and superior bargaining power with suppliers and creditors. These advantages enable them to mitigate operational disruptions more effectively compared to smaller firms. This finding is consistent with empirical evidence showing that firm size enhances adaptive capacity and financial stability in emerging markets (Nasouri, 2025). In the Indonesian construction sector, large firms may benefit from long-term government infrastructure contracts, which provide revenue continuity despite global uncertainty.

Inventory Turnover exhibits a meaningful relationship with ROA, highlighting the importance of operational efficiency in maintaining profitability. Efficient inventory management ensures timely project execution and reduces holding costs, thereby improving asset utilization. However, geopolitical conflicts in the Middle East may disrupt global supply chains, leading to material shortages and delayed deliveries. Such disruptions can slow inventory turnover and negatively affect profitability. This finding supports supply chain risk literature, which suggests that external shocks significantly influence operational efficiency and firm performance.

Collectively, these findings emphasize that the impact of geopolitical conflict is not uniform across firms but depends on internal financial strength and managerial efficiency. Contractor companies with balanced liquidity, moderate leverage, larger asset bases, and efficient inventory management are better equipped to withstand external shocks. This integrated perspective contributes to the literature by linking macro-level geopolitical risk with micro-level financial ratios in explaining corporate performance.

From a theoretical standpoint, this study extends the application of capital structure and liquidity management theories within the context of geopolitical risk. It demonstrates that classical financial theories remain relevant but must be interpreted within broader macroeconomic conditions. The interaction between external instability and internal financial policies provides a more comprehensive explanation of profitability dynamics in emerging markets.

Practically, the findings suggest that corporate managers should prioritize prudent leverage management, maintain optimal liquidity levels, and strengthen operational efficiency to enhance resilience against geopolitical uncertainty. Investors may also consider financial structure indicators when assessing firm stability during global conflicts. For policymakers, the results highlight the importance of maintaining financial market stability and supporting capital access for capital-intensive industries such as construction during periods of heightened geopolitical tension.

In conclusion, this discussion underscores that geopolitical conflicts in the Middle East influence Indonesian contractor firms primarily through financial channels—liquidity



constraints, leverage exposure, operational disruptions, and financing costs. By integrating external and internal determinants of performance, this study provides a nuanced understanding of how emerging market firms respond to global instability and offers valuable implications for strengthening corporate resilience in uncertain times.

CONCLUSION

This study examines the impact of the Middle East conflict on the financial performance of contractor companies listed on the Indonesia Stock Exchange by analyzing the roles of Cash Ratio, Debt to Asset Ratio (DAR), Firm Size, and Inventory Turnover in explaining Return on Assets (ROA). The findings indicate that geopolitical instability indirectly affects corporate profitability through financial and operational channels. External shocks arising from conflict—such as rising energy prices, supply chain disruptions, and tighter global liquidity—create pressures that influence firms' internal financial conditions and, ultimately, their ability to generate returns from assets.

Empirically, the results demonstrate that liquidity, leverage, firm size, and inventory efficiency significantly contribute to variations in ROA. Adequate liquidity supports operational stability during uncertain periods, although excessive cash holdings may reduce asset productivity. Leverage, as measured by DAR, plays a critical role in determining financial vulnerability, particularly in a capital-intensive sector such as construction. Meanwhile, larger firms tend to exhibit stronger resilience due to better access to financing and diversified operations. Efficient inventory turnover also enhances profitability by ensuring effective asset utilization, although global supply chain disruptions may hinder this efficiency during geopolitical crises.

Overall, this study highlights the importance of integrating external geopolitical factors with internal financial indicators in assessing corporate performance. The results contribute to the literature by providing sector-specific evidence from an emerging market context and by bridging the gap between geopolitical risk research and firm-level financial analysis. Practically, the findings suggest that contractor companies should maintain balanced liquidity, prudent leverage structures, and efficient operational management to strengthen resilience against global instability. Future research may expand this analysis by incorporating additional macroeconomic variables or comparative sectoral studies to further understand the broader economic consequences of geopolitical conflicts.



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