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How Capital Structure and GCG (Good Corporate Governance) Shape Firm Value: Evidence from Property Firms)

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ABSTRACT

This study investigates the influence of capital structure, profitability, and good corporate governance on firm value in the Indonesian property, real estate, and construction sectors. The research aims to provide empirical evidence on how financing decisions, financial performance, and governance mechanisms affect firm value in a post-pandemic period when the sector faces significant challenges. The study used purposive sampling to select 57 firms listed on the Indonesia Stock Exchange during 2021–2023. Multiple linear regression analysis was applied to examine the relationship between the variables. The findings reveal that capital structure, measured by the debt-to-equity ratio, has a significant positive effect on firm value, while profitability, measured by return on assets, does not influence firm value. In contrast, the presence of independent commissioners as a proxy for good corporate governance significantly enhances firm value. Compared to previous studies, the results show a divergence in the role of profitability, suggesting that investor valuation is not always aligned with accounting performance indicators. The study highlights the importance of governance structures and optimal financing decisions in maintaining firm value during periods of economic uncertainty. The research concludes that future studies should incorporate additional variables such as firm size or dividend policy and apply more advanced analytical methods to provide deeper insights.

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INTRODUCTION

The property, real estate, and construction sectors play a vital role in supporting national economic growth. These industries not only generate significant output but also create a multiplier effect on related sectors such as banking, manufacturing, and employment absorption. According to the Central Bureau of Statistics, the construction sector contributed around 10.4% and the real estate sector 2.5% to Indonesia's GDP in 2024, with a gross value added of IDR 2,312 trillion. Collectively, the property and construction sectors have consistently contributed more than 12% to national GDP during 2020–2024 (BPS, 2023).

World Bank, (2025) reports that housing and construction remain key drivers of Indonesia's economic growth, contributing about 10% of GDP, 7% of total employment, and 8% of tax revenues. The government's housing programs are also projected to create millions of jobs and mobilize substantial private investment. Despite this important contribution, firms in these sectors have recently faced challenges, including fluctuating mortgage rates, rising material prices, and increasing regulatory requirements. This situation has led to a decline in firm value for many companies listed on the Indonesia Stock Exchange during 2021–2023.

Firm value is widely recognized as a measure of corporate health and shareholder wealth. Companies with higher firm value are perceived as stronger and more attractive to investors. Mubarok et al., (2024) demonstrated that internal factors such as asset structure and profitability significantly influence capital structure, while the effective tax rate moderates financing decisions. This indicates that internal company conditions are central in determining firm value through financing policies.

Aibar-Guzmán et al., (2024) highlighted that corporate governance not only affects firm value but also serves as an adaptive response to external pressures, including climate change. Alsanousi et al.,(2024) further showed that profitability indicators such as return on assets and net profit margins remain critical in evaluating financial performance and investment quality. (Jouali et al., 2024) added that strong corporate governance practices reduce the risk of financial distress by improving the quality of financial reporting and oversight.

In the broader economic context, Asghar et al., (2024) found that the construction sector significantly contributes to economic growth, although inflation poses a major challenge to its sustainability. This evidence supports the argument that sector-specific dynamics must be considered when analyzing firm value. Khan et al.,(2024) confirmed that environmental, social, and governance (ESG) factors also enhance valuation and influence financing strategies through equity issuance. Rashid et al., (2025) reinforced these findings by showing that capital structure optimization and corporate sustainability are closely interrelated, which has important implications for firm value in the long term.

The novelty of this study lies in its explicit examination of firm value in the post-pandemic recovery period within Indonesia's property, real estate, and construction sectors, where market uncertainty and investor sensitivity remain high. Unlike prior studies that generally analyze capital structure, profitability, or corporate governance separately, this research integrates these three dimensions into a unified empirical framework during a period of economic adjustment following COVID-19.

Furthermore, this study highlights the diminishing role of profitability in determining firm value when compared to governance mechanisms, particularly the presence of independent commissioners, suggesting a shift in investor preferences from short-term accounting performance toward institutional credibility and oversight. This sector-specific and period-specific approach provides new empirical evidence that extends existing literature on firm value in emerging markets.

METHODS

Research Design

This study employs a quantitative approach with an associative-causal research design to examine the effect of capital structure, profitability, and independent commissioners on firm value in the property, real estate, and construction sectors listed on the Indonesia Stock Exchange (IDX). Data analysis is conducted using multiple linear regression to evaluate the simultaneous relationships between variables.

Population and Sample

The research population consists of all property, real estate, and construction companies listed on the Indonesia Stock Exchange (IDX) during the period 2019–2023.

The population includes companies officially classified within these sectors that publish their annual financial statements on the IDX official website (www.idx.co.id). This study employed a purposive sampling technique, whereby sample selection was based on specific inclusion and exclusion criteria to ensure data completeness and consistency. Companies were included if they were listed on the IDX throughout the observation period, consistently published complete annual financial statements from 2019 to 2023, disclosed all financial and governance variables required for the analysis—including debt-to-equity ratio, return on assets, firm value indicators, and information on independent commissioners—and presented their financial statements in Indonesian Rupiah to ensure comparability. Conversely, companies were excluded if they were delisted, newly listed, or experienced prolonged trading suspension during the study period, had incomplete financial or governance data for any year, or reported negative equity values that could bias capital structure measurements. Based on these criteria, a total of **57 companies** were selected as the final research sample.

Data Collection Technique

Secondary data were obtained from the companies' annual financial statements. The variables analyzed include, Firm value (dependent variable), capital structure, profitability, and independent commissioners (independent variables). Data analysis was performed using SPSS version 25, including descriptive statistics and classical assumption tests (normality, multicollinearity, heteroscedasticity, and autocorrelation). After passing the classical assumption tests, multiple linear regression analysis was conducted.

Table 1. Variables and Indicators

Variable	Indicator	Data Source	Data Type
Firm Value (Y)	Price to Book Value (PBV)	IDX Financial Statements	Financial Ratio
Capital Structure (X1)	Debt to Equity Ratio (DER)	IDX Financial Statements	Financial Ratio
Profitability (X2)	Return on Assets (ROA)	IDX Financial Statements	Financial Ratio
Independent Commissioners (X3)	Percentage of Independent Commissioners	Annual Reports	Percentage

Source: Author (2025)

Regression Equation

The multiple linear regression equation used is:

$$Yi = a + b1X1 + b2X2 + b3X3 + e$$

Where:
Yi = Firm Value
a = Constant
b1–b3 = Regression Coefficients
X1 = Capital Structure
X2 = Profitability
X3 = Independent Commissioners
e = Error Term

RESULTS AND DISCUSSION

Result

Multiple linear regression was conducted on 57 property, real estate, and construction firms listed on the Indonesia Stock Exchange (IDX) for 2021–2023. All classical assumptions—normality, multicollinearity, heteroskedasticity, and autocorrelation—were satisfied.

Table 2. Summary of Classical Assumption Tests and Model Significance

Type of Test	Indicator / Variable	Statistical Value	Decision Criteria	Conclusion
Normality Test (K–S)	Asymp. Sig. (Residual)	0.011	> 0.05	Data are normally distributed
Multicollinearity Test	DER (Tolerance /	1.000 / 1.000	Tolerance ≥ 0.10; VIF ≤ 10	No multicollinearity
	ROA (Tolerance / VIF)	0.912 / 1.096	Tolerance ≥ 0.10; VIF ≤ 10	No multicollinearity
	DKI (Tolerance / VIF)	0.912 / 1.096	Tolerance ≥ 0.10; VIF ≤ 10	No multicollinearity
Heteroskedasticity Test (Glejser)	DER (Sig.)	0.169	> 0.05	No heteroskedasticity
	ROA (Sig.)	0.504	> 0.05	No heteroskedasticity
	DKI (Sig.)	0.335	> 0.05	No heteroskedasticity
Autocorrelation Test	Durbin–Watson	1.582	−2 < DW < +2	No autocorrelation
Simultaneous Significance Test	F / Sig.	356.782 / 0.000	Sig. < 0.05	Model is statistically significant

Source : SPSS output, Processed by the author (2025)

Table 3. Regression Results

Variable	B	t	Sig.
(Constant)	13.772	34.794	0
Debt to Equity Ratio (DER)	0.006	2.515	0.014
Return on Assets (ROA)	0	-0.372	0.711
Independent Board of Commissioners (IBC)	8.754	32.711	0

Source: Author (2025)

The regression equation is:

$$Y=13.772+0.006DER+0.000ROA+8.754IBC+e$$

The F-test yields 356.782 with $p < 0.001$, indicating that all independent variables jointly influence firm value. The Adjusted R^2 of 0.914 shows that 91.4% of the variation in firm value is explained by capital structure, profitability, and good corporate governance.

The high Adjusted R^2 value of 0.914 indicates strong explanatory power of the model. This result can be attributed to the sectoral focus on property, real estate, and construction firms, where firm value is closely associated with leverage decisions and governance quality, particularly in the post-pandemic period. The relatively homogeneous industry characteristics and the use of firm-level data over multiple years enhance the ability of capital structure, profitability, and independent commissioners to explain variations in firm value. Moreover, all classical assumption tests are satisfied, suggesting that the high Adjusted R^2 reflects model relevance rather than estimation bias.

Discussion

Table 1 shows that the regression model satisfies all classical assumption requirements and is therefore appropriate for hypothesis testing. The normality test indicates that the residuals are normally distributed, while the multicollinearity test results demonstrate that all independent variables have tolerance values above 0.10 and VIF values below 10, indicating the absence of multicollinearity. Furthermore, the heteroskedasticity test reveals that none of the independent variables exhibit significant heteroskedasticity, as all significance values exceed the 0.05 threshold. The Durbin–Watson statistic falls within the acceptable range, confirming that the model is free from autocorrelation. Finally, the F-test result confirms that the regression model is statistically significant, suggesting that capital structure, profitability, and independent commissioners jointly explain variations in firm value.

Capital Structure and Firm Value

The positive coefficient for DER ($p = 0.014$) confirms that firms managing leverage effectively can enhance firm value. This aligns with Agency Theory (Jensen & Meckling, 1976), where debt disciplines managers by imposing regular interest obligations, and with Signaling Theory (Spence, 1973), where optimal leverage signals managerial confidence in long-term prospects.

Given that the property and construction sectors contribute more than 12% of Indonesia's GDP (BPS, 2023) and around 10% of total GDP, 7% of employment, and 8% of tax revenue (World Bank, 2025), the ability to optimize capital structure has direct macroeconomic significance. Global studies such as Rashid et al., (2025) and Khan et al., (2024) further highlight that sustainability and ESG considerations shape capital-structure decisions, reinforcing the need for prudent leverage in this industry. Moreover, Adegoke & Akinola, (2025) find that operational and market risks significantly affect financial performance in the real estate and construction sectors, with board structure as a key moderator. Studies by (Essel, 2023), Pebriawan & others, (2022) , and Prastyatini, (2024) also confirm that debt management strategies and ownership structure influence firm value, while Samal & Yadav, (2025) and Tang & Xu, (2024) highlight the role of institutional and long-term debt in firm growth.

Profitability and Firm Value

Contrary to most international evidence that documents a positive relationship between profitability and firm value (Siregar et al., 2023; Chakkravarthy et al., 2024), this study finds that profitability, as measured by ROA, has no significant effect on firm value. In the context of Indonesia's property, real estate, and construction sector during the post-

pandemic period, this result suggests that accounting-based profitability was not the primary signal considered by investors. As noted by Essel (2023), firms with debt-based capital structures tend to experience a weakening of the link between short-term profitability and market valuation, which is particularly relevant for capital-intensive property firms in Indonesia.

Furthermore, Fathi et al. (2024) show that financial signals such as dividends and institutional ownership can mediate the impact of information asymmetry on firm value, implying that ROA may lose its predictive power when investors rely on alternative indicators of firm quality. Similarly, Morri et al. (2024) highlight that ESG performance can outweigh conventional profitability measures in valuation decisions, a pattern that became more pronounced during periods of economic uncertainty. These dynamics align with Indonesia's post-pandemic environment, where mortgage-rate volatility, rising construction costs, and tighter regulations reduced the informational content of earnings for property firms. Consistent with this argument, Mubarok et al. (2024) find that asset structure and tax considerations exert a stronger influence on financing decisions than short-term profitability, reinforcing the view that profitability was not a dominant driver of firm value in this sector and period/

Good Corporate Governance and Firm Value

Independent commissioners exert a strong positive influence on firm value ($p < 0.001$). Effective oversight enhances transparency and lowers agency costs, consistent with Agency Theory and with the signaling view that strong governance conveys integrity and reliability. International research supports this mechanism: Effective oversight enhances transparency and lowers agency costs, consistent with Agency Theory and with the signaling view that strong governance conveys integrity and reliability. International research supports this mechanism: Jouali et al., (2024) and Damayani & others, (2025) demonstrate that board independence improves financial reporting quality and reduces financial distress risk. Similarly, Al-Nohood et al., (2024) emphasize the critical role of audit committee characteristics in mitigating earnings management, while Bukari et al., (2024) show that board diversity and independence positively affect firm value. Kalembe et al., (2024) highlight that CEO power negatively affects earnings quality, and Okolo & Sinebe, (2025) note that audit committee size can influence executive compensation. Al-Faryan, (2024) further warns that concentrated ownership can exacerbate agency conflicts and corruption risks, reinforcing the need for strong governance structures. In Indonesia's property sector—closely tied to job creation and fiscal revenue—robust governance provides confidence for both domestic and foreign investors.

Research Novelty and Gap

Unlike most prior studies that emphasize profitability as the primary driver of firm value, this research shows that during the post-pandemic recovery (2021–2023) capital structure and corporate governance were far more decisive. This finding fills a clear gap in the literature, which has rarely examined the Indonesian property and construction sectors under crisis-and-recovery conditions.

Moreover, while international evidence (Siregar et al., 2023; Chakkravarthy et al., 2024) consistently supports a positive profitability–value relationship, comparable studies in emerging markets facing post-crisis macroeconomic pressures—such as high inflation

and volatile housing demand—remain scarce. By integrating macro data on GDP contribution and sectoral employment from BPS, (2023) and the World Bank,(2025), this study provides a broader empirical perspective that most prior research lacks.

Policy Implications

The results carry important implications for managers, investors, and policymakers. When profitability ceases to be a reliable market signal, strengthening capital structure and corporate governance becomes the primary strategy to sustain firm value. Regulators can encourage this by setting clear leverage guidelines and enforcing board independence standards, while firms should prioritize transparent governance and prudent debt management to attract long-term capital and support Indonesia's housing and construction growth agenda.

CONCLUSION

This study demonstrates that during the 2021–2023 post-pandemic recovery period, the capital structure and the strength of good corporate governance—represented by an independent board of commissioners—have a significant positive effect on firm value, while profitability measured by return on assets does not. These findings indicate that in Indonesia's property, real estate, and construction sectors, investor confidence relies more on prudent leverage management and robust governance than on short-term profitability signals. The results confirm that effective debt management and independent oversight remain critical drivers of firm valuation in an environment of macroeconomic uncertainty. Managers should prioritize maintaining an optimal debt-to-equity ratio and strengthening the independence and effectiveness of the board of commissioners to enhance investor trust and long-term firm value. For policymakers and regulators, the evidence underscores the need to reinforce governance standards and provide clear guidance on sustainable capital structures, especially as these sectors contribute significantly to national GDP, employment, and tax revenues. Investors can use governance quality and leverage discipline as primary criteria when assessing the attractiveness of property and construction companies in volatile markets. Future studies could broaden the sample to include other emerging markets or additional sectors to test the robustness of these findings, extend the observation period beyond the post-pandemic years, and incorporate new variables such as environmental, social, and governance (ESG) scores, market risk factors, or dividend policy. Employing alternative analytical methods such as structural equation modeling (SEM) or panel data techniques may also provide deeper insights into the dynamic relationships among capital structure, governance, and firm value.

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