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The Influence of Capital Structure and Good Corporate Governance on Stock Prices in Real Estate and Property Companies Listed on the Indonesia Stock Exchange with Profitability as a Mediating Variable

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Keywords
Capital Structure; Good Corporate Governance; Profitability; Share Price; Return on Assets.

Abstract
This research aims to analyze the influence of capital structure and good corporate governance on the share price of real estate and property companies listed on the Indonesia Stock Exchange (IDX), with profitability as a mediating variable. A quantitative approach is used with secondary data in the form of annual financial statements from 75 companies during the period 2020–2024. The analysis method used is path analysis to test the direct and indirect relationships between variables. The results of the research show that the capital structure has a significant negative effect and good corporate governance has a significant positive effect on the stock price. In addition, profitability has been proven to be able to mediate the influence of capital structure on stock prices, but it is not able to mediate the influence of good corporate governance on stock prices. In addition, profitability has been proven to be able to mediate the influence of capital structure and good corporate governance on stock prices. These findings provide empirical evidence that balanced capital structure and strong governance practices are crucial for enhancing firm value in Indonesia's property sector, with profitability serving as an important intervening mechanism. The study offers practical insights for corporate managers optimizing financial strategies and investors making portfolio decisions in emerging markets.
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Introduction

Indonesia's economy is experiencing quite good growth. This growth includes lifestyles, mindsets, and behaviors that are in line with the current era of *globalization*, which results in the value of people's lives changing for better welfare (Negara & Sugiana, 2022; Rajah, 2018; Sakinah et al., 2022; Sapulette & Muchtar, 2023; Vella Anggresta et al., 2023). Developments in the current economy have encouraged competition between companies. One of the industries that has attracted a lot of interest is the *property* and *real estate* sector, indicating a positive signal for the Indonesian economy because incoming income is also increasing. One of the investment alternatives in the capital market is the *real estate* and *property* industry, which has unique characteristics affecting capital structure, corporate governance, and profitability (Musa et al., 2020; Nainggolan & Handayani, 2023; Omodero, 2020; Petry et al., 2023). First, its capital-intensive nature requires companies to have access to long-term financing sources. Second, the long and complex property development cycle demands careful financial planning as well as effective risk management to anticipate market fluctuations and regulatory changes. Third, the close relationship with other sectors, such as construction, building materials manufacturing, and financial services, necessitates corporate governance that can coordinate across sectors to ensure smooth operations and project sustainability (Rosita, 2022).

Recent trends in Indonesia's property industry show optimism driven by various positive factors. In the fourth quarter of 2023, the Residential Property Price Index (*CPI*) grew by 1.74% (year-on-year), although this was slightly slower than the previous quarter, which reached 1.96%. Residential property sales in the primary market also experienced a significant increase of 3.27% (year-on-year), reversing from a contraction of 6.59% in the previous quarter (Bank Indonesia, 2023). However, the industry also faces a number of challenges that need to be addressed to ensure sustainable growth. One such challenge was a decline in the *real estate* sector by 12.30% (year-on-year) in the second quarter of 2023, although sales of large houses increased by 15.11% in the same period (Kompas, 2024).

Stock prices have a crucial role in the financial world because they are the main indicators that influence the decisions of various parties, including investors, companies, and the economy as a whole (Silaban & Suryani, 2020). For companies, a high and stable stock price has many benefits. First, a high share price reflects strong market demand for the company's shares, signaling that investors have positive expectations for the company's growth and profitability. This not only improves the company's reputation in the eyes of investors, but also makes it easier for the company to obtain additional funding through the issuance of new shares (*rights issue*) at competitive prices (Alamsyah & Yulianti, 2022).

One of the factors that can affect stock price is the capital structure. Research conducted by Murtiningtyas, et al. (2023) shows that, simultaneously, capital structure and financial performance have a significant effect on stock prices. Partially, each of these variables also has a significant influence on stock prices. These findings indicate that decisions related to capital structure can affect investor perceptions and, ultimately, the company's share price.

A study conducted by Aditiya (2021) found that capital structure, as measured by the Debt to Equity Ratio (*DER*), is influential. A high *DER* indicates a heavy reliance on debt financing, which has implications for increased financial risk due to future interest and principal obligations. This risk can reduce the attractiveness of stocks in the eyes of investors, especially when the company's ability to generate cash flow to meet such obligations is in doubt. In contrast, a moderate *DER* reflects a more balanced capital structure, which is considered to be healthier financially and tends to increase investor confidence, thus potentially having a positive impact on stock prices.

Similarly, Maghfirah & Giryatiningrum (2024) conducted a study and concluded that good corporate governance has an influence on stock prices. This is due to several factors, including: (1) investor perception that focuses more on short-term financial performance than on governance quality; (2) information related to *Good Corporate Governance* (*GCG*) practices that is not fully reflected in market prices due to limited information asymmetry; and (3) capital markets in developing countries tending to be less efficient, so the price mechanism does not fully internalize non-financial aspects such as *GCG*.

The use of profitability as a mediating variable in research is based on its crucial role in bridging the relationship between independent and dependent variables, especially in the context of business and financial management. Profitability reflects the financial condition of a company based on indicators such as *profitability ratios*, making it an objective measure to assess the impact of various factors—such as business strategy, investment, corporate governance, or financial policies—on the company's final outcomes, including company value or stakeholder satisfaction.

Stock prices serve as critical indicators for investor decisions and corporate valuation, influenced by factors such as capital structure and governance practices. Prior research has examined these relationships, yet gaps remain in understanding the mediating role of profitability, particularly in Indonesia's unique market context. For instance, while Aditiya (2021) found that high *debt-to-equity ratios* negatively impact stock prices, Maghfirah & Giryatiningrum (2024) emphasized governance quality as a positive driver. However, no study has comprehensively analyzed how profitability mediates these effects in the Indonesian *real estate* sector. This research fills that gap by investigating the interplay between capital structure, corporate governance, and stock prices, with profitability as a mediator. The novelty lies in its dual focus on sector-specific dynamics and mediation analysis, offering fresh insights for academia and industry.

The study aims to: (1) quantify the impact of capital structure and governance on stock prices, (2) assess profitability's mediating role, and (3) provide actionable recommendations for companies and investors. Its findings will enhance financial decision-making, support policy formulation for market stability, and contribute to the literature on emerging markets. By addressing these objectives, the research underscores the strategic importance of balanced financing and governance practices in driving sustainable growth.

Materials and Methods

In conducting quantitative research with a structural model approach, one of the most appropriate data analysis techniques to use is *Structural Equation Modeling* (*SEM*) with the help of *AMOS* (Analysis of Moment Structures) software. *SEM AMOS* allows researchers to simultaneously test the causal relationships between latent variables (which cannot be directly measured) and manifest variables (indicators used to measure latent variables), as well as accommodate complex relationships such as direct and indirect effects (mediation), including the mediating influence of profitability in the model. This technique offers a comprehensive analysis, both in terms of measurement model testing and structural model testing. The following are the types of tests conducted in the *SEM AMOS* technique that are relevant and important in the context of this study, along with a detailed explanation of each type of test: Statistical Test, Normality Test, Path Coefficient, Hypothesis Test, and *Sobel Test*.

Results and Discussions

Statistics Descriptive

Table 1. Descriptive Statistics

Variable	min	Max	skew	c.r.	kurtosis	c.r.
x2 (GCG)	0.75	1	0.31	1.06	-0.466	-0.795
x1 (THE)	0.09	1.81	0.391	1.336	-0.996	-1.701
Z (ROA)	0.18	0.78	-0.642	-2.192	2.937	5.015
Y (Stock Price)	3.491	5.428	0.133	0.453	-0.892	-1.523

Source: data processed by researchers (2025)

The test results show that the Debt to Equity Ratio (DER) variable shows a skewness value of 0.391 with a CR of 1.336. This value shows a slight positive slope, but it is still within acceptable limits (CR < ±2.58). Furthermore, the Good Corporate Governance (GCG) variable has a skewness value of 0.31 and a critical ratio (CR) value for skewness of 1.06, which is still in the range of ±2.58 so it can be said that the data distribution tends to be symmetrical or close to normal. Meanwhile, the Return on Assets (ROA) has a skewness value of -0.642 with a CR of -2.192 which is close to the lower limit of normality tolerance (CR ±2.58). The stock price variable has a skewness value of 0.133 with a CR of 0.453 which is very small and indicates that the distribution of the data is almost symmetrical.

Normality Test

Table 2. Normality Test

Kurtosis	**3.394**
c.r	2.049

Source: data processed by researchers (2025)

The table above shows that the kurtosis value is 3.394 (<7) and the c.r value is 2.049 or is in the range of 2 which means that the data used in the study is normal.

Path Coefficient

In this study, the path coefficient model was used to analyze the influence of Debt to Equity Ratio (DER), Good Corporate Governance (GCG), and Return on Asset (ROA) on stock prices. This model also tested the influence of DER and GCG on ROA as mediating variables. The following are the results of the path coefficient test conducted by the researcher using the Amos SEM application:

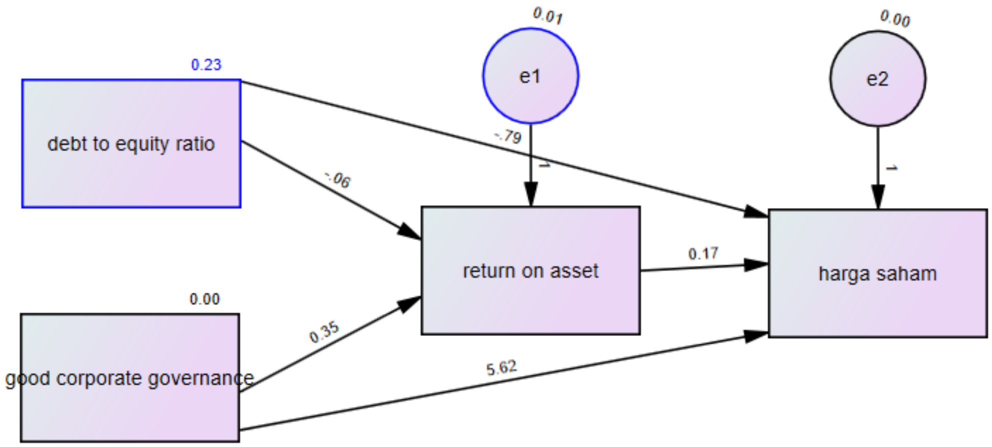

Figure 1. Path Coefficient

Source: Data processed by researchers (2025)

The following is a presentation of the path coefficient in the form of a table:

Table 3. Path Coefficient Analysis Results

			Estimate	S.E.	C.R.	P
with	<---	x1	-0.057	0.021	-2.701	0.007
with	<---	x2	0.352	0.151	2.329	0.020
and	<---	with	0.170	0.035	4.782	0.000
and	<---	x1	-0.793	0.007	-120.443	0.000
and	<---	x2	5.616	0.046	121.288	0.000

Source: The results of the Structural Equation Modeling (SEM) analysis with AMOS 26.0 software, processed by the researcher (2025)

Based on the image above, here are the equations that can be made by researchers in this study:

Share Price = -0.793DER + 5.616GCG + 0.170ROA (I)

Return on Asset = -0.057DER + 0.352GCG (II)

The results of the path coefficient test, namely the DER coefficient of -0.793, show that every increase in one unit of DER will cause a decrease in the stock price of 0.793 units, assuming the other variables remain the same. The GCG coefficient of 5.616 indicates that the better the application of corporate governance principles, the stock price will increase. The ROA coefficient of 0.170 indicates a positive influence of the Return on Asset on the stock price. The DER coefficient of -0.033 indicates that the higher the debt-to-equity ratio, the lower the company's profitability (ROA). And the GCG Coefficient of 0.234 shows that good corporate governance practices are able to improve the company's financial performance in the form of profitability

Hypothesis Test

Table 4. Hypothesis Test

			Estimate	S.E.	C.R.	P
with	<---	x1	-0.057	0.021	-2.701	0.007
with	<---	x2	0.352	0.151	2.329	0.020
and	<---	with	0.170	0.035	4.782	0.000
and	<---	x1	-0.793	0.007	-120.443	0.000
and	<---	x2	5.616	0.046	121.288	0.000

Source: Hypothesis test output using SEM AMOS, processed by the researcher (2025)

The results of the Debt to Equity Ratio hypothesis test have a negative and significant influence on the Return on assets as evidenced by a p value of 0.007 (p value < 0.05). Good Corporate Governance has a positive and significant influence on Return on assets as evidenced by a p value of 0.020 (p value < 0.05). Return on assets has a positive and significant influence on the Stock Price as evidenced by a p value of 0.000 (p value < 0.05). Debt to Equity Ratio has a positive and significant influence on Haga Saham as evidenced by a p value of 0.000 (p value < 0.05). Good Corporate Governance has a positive and significant influence on Return on assets as evidenced by p value 0.000 (p value < 0.05).

Sobel Test

Table 5. Variable Sobel Test X1

Input			Test Statistic	Std. Error	*p*-value
a	**0.057**	**Sobel test:**	2.36941802	0.00408961	0.0178161
b	**0.170**	**Aroian test:**	2.33205398	0.00415514	0.01969785
S_a	**0.021**	**Goodman test:**	2.40863754	0.00402302	0.01601219
S_b	**0.035**	Resel all		Calculate	

Source: Results of the Sobel mediation test with the help of SEM AMOS software and the Sobel test calculator, processed by the researcher (2025)

The table above shows that the statistical t-value is 2.36 which means the statistical t-value is > 1.96 and the p-value is 0.017 (p-value<0.05) which means that the return on asset mediates the influence of the debt to equity ratio on the stock price.

Table 6. Variable Sobel Test X1

Input:			Test Statistic	Std. Error	p-value
a	0.352	Sobel test:	2.10161478	0.02847334	0.03558703
b	0.170	Aroian test:	2.06632184	0.02895967	0.03879810
S_a	0.151	Goodman test:	2.1387802	0.02797856	0.03245347
S_b	0.035	Resel all		Calculate	

Source: Mediation analysis using the Sobel approach, processed by the researcher (2025) through SEM AMOS

The table above shows that the statistical t-value is 2.10 which means the statistical t-value is > 1.96 and the p-value is 0.035 (p-value<0.05) which means that the return on asset mediates the influence of good corporate governance on the stock price.

Conclusion

The capital structure, as measured through the *Debt to Equity Ratio* (*DER*), has a significant negative influence on the share prices of *real estate* and *property* companies on the Indonesia Stock Exchange. This indicates that increased financial leverage can reduce the market value of the company's shares. Good *corporate governance* (*GCG*) has a positive and significant influence on stock prices, showing that good *corporate governance* practices can increase investor confidence and the company's market value. Profitability serves as a mediating variable capable of strengthening the influence of capital structure and *GCG* on stock prices. However, profitability does not mediate the influence of *GCG* directly on stock prices significantly, but is able to mediate the combined influence of both variables on stock prices. Thus, the implementation of a balanced capital structure and the application of good *GCG* principles can increase company value through rising share prices, with profitability as an important intermediate factor in the relationship model.

Based on these findings, several suggestions can be proposed. First, it is recommended that companies maintain a balance in their capital structure by avoiding excessive reliance on debt financing, as well as strengthening *GCG* implementation through transparency and accountability. Second, investors should consider *DER* and *GCG* quality as key criteria in making investment decisions, as well as monitor the company's profitability level. Third, for regulators, these findings can serve as a reference in formulating policies that encourage good *corporate governance* practices and sound capital structure management in the *property* and *real estate* sectors. For further research, it is recommended to expand the scope of the sample by involving a longer time period or other industry sectors. In addition, future research may consider additional mediating variables such as liquidity or company size to enrich the analysis. Thus, the findings of this study provide not only academic contributions but also practical implications for various stakeholders in the Indonesian capital market.

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