

**Effect of Capital Structure and Good Corporate Governance on Firm Value with Profitability as Intervening Variable** (Case Study on Heavy Constructions & Civil Engineering Companies Registered in Indonesia Stock Exchange Period 2014 – 2021)

Ma'ruffi Kurnia <sup>1</sup>, Indra Siswanti <sup>2</sup>

1 Faculty of Economics and Business, Universitas Mercu Buana, Jakarta, Indonesia

2 Faculty of Economics and Business, Universitas Mercu Buana, Jakarta, Indonesia

DOI: <https://doi.org/10.56293/IJMSSSR.2022.4689>

IJMSSSR 2023

VOLUME 5

ISSUE 4 JULY – AUGUST

ISSN: 2582 - 0265

**Abstract:** This research aims to analyze the influence of capital structure and good corporate governance on company value with profitability as an intervening variable. The population of this research is the Heavy Constructions & Civil Engineering sub-sector companies that are registered on the Indonesia Stock Exchange during the period 2014-2021, with a total sample of 10 companies. The data were analyzed using panel data regression analysis which was processed using EViews 10 Software. The research found that capital structure proxied by DER and GCG proxied by institutional ownership had a significant positive effect on profitability proxied by ROE. In addition, GCG and profitability have a significant positive effect on firm value which is proxied by stock returns. Nevertheless, the capital structure has no effect on firm values. Regarding the intervening variable, the research found that profitability proxied by ROE is not able to mediate the influence of GCG on firm value. However, profitability is able to mediate the effect of capital structure on firm value.

**Keywords:** capital structure, GCG, profitability, company value.

## 1. INTRODUCTION

During the 2014-2021 period, the construction sector has always ranked 4th in contributing to the National Gross Domestic Product (GDP) with an average of 10.41% (BPS, 2022). In 2014, government infrastructure budget disbursed amounted to IDR 154.7 trillion and continued to increase until 2021 of IDR 417.4 trillion. However, data shows that an increase in the infrastructure budget over the period 2014 to 2021 does not guarantee an increase in stock returns in the Heavy Construction & Civil Engineering companies. Stock returns actually experienced a very significant decline from 2014 to 2015. Furthermore, stock returns had risen in 2016 and 2017 but experienced a decline and remained stagnant until 2021.

From a macroeconomic view, that phenomenon was caused economic crisis that has occurred in Indonesia and in all over the world. The decline in commodity prices which increasingly impacted the deteriorating economic performance of developing countries and uncertainty regarding the speed and magnitude of the increase in interest rates in the United States were the two main forces that colored the series of turmoil on global financial markets during 2015, which in turn had an impact on decreasing capital flows to developing countries including Indonesia (Bank Indonesia, 2016).

The company aims to create profit. The best way to optimize profit margins is to manage the capital structure. An optimal capital structure can create strong and stable financial conditions (Puspita and Siswanti, 2021). According to Kasenda (2020), capital structure is the factor that most influences the company's financial performance. The choice of an optimal capital structure reflects the right mix of company debt and equity which increases company value (Diantimala et al., 2021). Therefore, one of the indicators that must be considered in assessing a company value is the capital structure policy.

The relationship between capital structure and firm value has been studied previously. According to Hirdinis (2019); Natsir and Yusbardini (2019); Felicia et al. (2022), capital structure has a significant positive effect on firm

value. This research in line with Alghifari et al. (2022) that there is an effect of capital structure on firm value in a positive direction. Luu (2021) shows that capital structure is proven to have a close correlation with company value. The research from Ater (2017) show that there is a statistically significant relationship between capital structure and the value of non-financial companies. However, there are studies prove that capital structure has no significant effect on stock returns (Tjong & Kurniawan, 2021). In addition, Rajhans (2013); Puspita and Siswanti (2021) also found that capital structure does not affect company value.

Agency theory, which suggests a conflict of interest between managers and shareholders (Jensen and Meckling, 1976), has been widely discussed in the finance and accounting literature. This theory is the forerunner of the concept of corporate governance (GCG). According to Sugosha and Artini (2020), good corporate governance is a system that is implemented in managing a company with the main goal of increasing shareholder value in the long term while taking into account the interests of stakeholders.

GCG is one of the important factors in increasing the value of the company. According to Hidayat et al. (2018) GCG and dividend policy have a positive effect on adding company value. Worokinasih and Zaini (2020) states that GCG has a significant and positive effect on Corporate Value. This research is consistent with Muttaqin et al. (2019), Ji-Hyun & Su-Yol (2022) which prove that corporate governance is positively related to company value. Meanwhile, according to Kurniati (2019), Saputri & Supramono (2021) found that GCG has no significant effect on company value. Suhadak et al. (2019) also stated that GCG has a significant and negative relationship to company value (stock return).

Therefore, the author interested in conducting research about the firm value. Thus, it can be identified the effect of independent variable used in this study on firm value (stock return) with profitability as an intervening variable in Heavy Constructions & Civil Engineering Companies Registered in Indonesia Stock Exchange during period 2014 – 2021.

## 2. LITERATURE REVIEW AND HYPOTHESES

### Agency Theory

Jensen and Meckling (1976) explain agency relationships as "agency relationship as a contract under which one or more persons (the principals) engage another person (the agent) to perform some service on their behalf which involves delegating some decisions making authority to the agent". An agency relationship is a contract in which one or more people (principals) instruct another person (agent) to perform a service on behalf of the principal and authorize the agent to make the best decisions for the principal. Agency problems (agency problems) between shareholders (company owners) and potential managers occur when management does not own the majority share of the company. Shareholders certainly want managers to work with the aim of maximizing shareholders. Conversely, company managers may act not to improve the welfare of shareholders, but to optimize their own welfare. It can be stated as "conflict of interest".

### Capital Structure

The capital structure is a comparison between the amount of debt and the company's own capital (Musthafa, 2017). The capital structure indicator used in this study is DER. This ratio is used to measure the balance between the company's liabilities and its own capital. This ratio can also mean as a company's ability to fulfill its obligations to pay its debts with a guarantee of its own capital. The formula is (Kasmir, 2016):

$$DER = \frac{\text{Total debt}}{\text{Total equity}}$$

### Profitability

Profitability is a company's ability to generate profits related to sales results, total assets and own capital (Sartono, 2014). Companies that generate high profits have a tendency to use more party funds to get tax benefits because debt is not taxed. The company wants its company profits to increase, which means the company can increase

profitability assuming the company's total assets do not increase (Utami and Dewi, 2016).

The profitability ratio used in this study is ROE. ROE is a measure of how shareholders fared over the course of a year. In another sense, ROE is the return on net income to equity and is expressed in percent. The formula for calculating ROE is as follows:

$$\text{ROE} = \frac{\text{Net income}}{\text{Total equity}}$$

### Good Corporate Governance (GCG)

In Indonesia, the concept of GCG has become known since the 1997 economic crisis, which was a prolonged crisis which was judged to be due to not being managed responsibly by companies, ignoring regulations and laden with KKN practices (corruption, collusion, nepotism) (Budiati, 2012). The International Finance Corporation (IFC) defines corporate governance as “the structures and processes for directing and controlling a company.”

According to Ratnasari (2011), the mechanisms for overseeing Corporate Governance are divided into 2 (two) groups, namely internal mechanisms (general meeting of shareholders (GMS), composition of the board of directors, composition of the board of commissioners and meetings with the board of directors) and external mechanisms (other than using internal mechanisms, managerial ownership structures, institutional ownership).

Institutional ownership is an institution that has a great interest in company investment, including stock investment. So that its existence is considered important as a means of controlling or monitoring in the development of the company's investment. Tarjo (2008) explains institutional ownership is the ownership of a company's shares by institutions or institutions such as insurance companies, banks, investment companies, and other institutional ownership. Institutional ownership can be calculated using the formula below:

$$\text{Institutional ownership} = \frac{\text{The number of shares owned by the institution}}{\text{Total outstanding shares}}$$

### Firm Value

Firm value is an investor's perception of a company which is often associated with stock prices in the market (Putu, Moeljadi, and Djazuli, 2014). The company's main goal is to maximize the value of the company, which determines the level of prosperity of its shareholders. The higher the company value, the more prosperous the owner will be (Wulandari, 2013). The value of the company is also reflected in its share price.

According to Kusumajaya (2011) what is meant by company value is the price that prospective buyers are willing to pay if the company is sold. While the value of the company can be seen through the market value or the book value of the company's equity. A stable level of profitability can give investor confidence in the investments made because the company is considered good at generating profits so that the investment risk is low (Winarti et al., 2020).

The company value indicator used in this study is stock return. In an investment there is always a return and risk. According to Hartono (2010) return is the result obtained from investment returns can be in the form of realized returns that have occurred or expected returns that have not occurred but are expected to occur in the future. According to Diana & Tjiptono (2022), the formula for calculating the realized rate of return from an investment is:

$$\text{Realized rate of return} = \frac{\text{Price last period} + \text{Deviden} - \text{Price first period}}{\text{Price first period}}$$

The research framework can be described as follows:

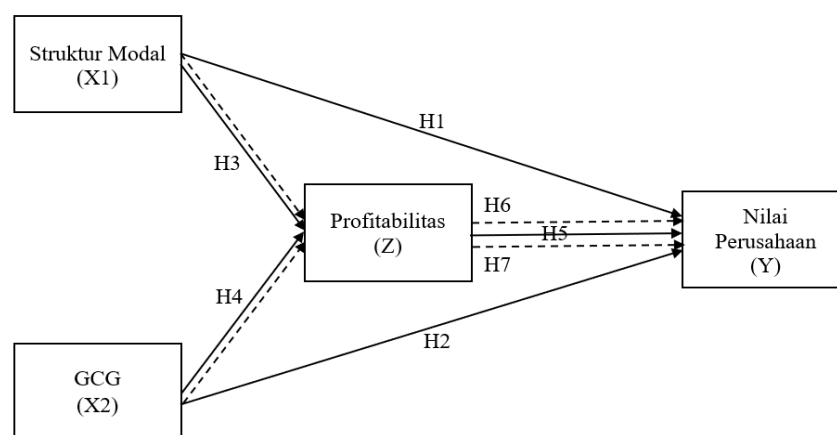


Figure 1. Research Framework

### Hypotheses

#### 1. Effect of Capital Structure on Firm Value

The choice of optimal capital structure reflects the right mix of debt and equity of the company which increases the value of the company (Diantimala et al., 2021). For companies in the Heavy Constructions & Civil Engineering sub-sector, the choice of debt (leverage) is the quickest decision that can be chosen to finance new projects rather than companies having to increase capital deposits or withhold dividends. Generally, the interest expense on loans has been included in the company's financial planning and of course it still generates a profit. This profit increases the value of the company.

Capital structure is proven to have a close correlation with company value (Luu, 2021). Research by Ater (2017), Hirdinis (2019), Natsir & Yusbardini (2019), and Kurniasih et al. (2022) state that capital structure has a positive influence on company value. However, it is inversely proportional to the research of Rajhans (2013), Umaiyah & Salim (2018), Puspita & Siswanti (2021), and Putro & Risman (2021) which conclude that capital structure has no effect on firm value.

H1. Capital structure has a significant positive effect on firm value.

#### 2. Effect of GCG on Company Value

Agency problems that arise in a company can be minimized by implementing a supervisory system that aims to align various interests. GCG relates to how shareholders believe that managers are able to provide benefits to shareholders, and believe that managers will not commit fraud. GCG which is proxied by Institutional Ownership due to share ownership by institutional investors is also considered capable of monitoring the performance of managers in maximizing the welfare of shareholders or in other words increasing the value of the company.

Kamaliah (2020) states that GCG can directly affect company value. Research Oktaryani et al. (2017), Worokinasih & Zaini (2020) state that GCG has a significant and positive effect on corporate value (company value). However, it is inversely proportional to Kurniati (2019) which states that GCG has no significant effect on company value and Suhadak et al. (2019) GCG has a significant and negative relationship to stock returns.

H2. GCG has a significant positive effect on firm value

3. Effect of Capital Structure on Profitability

Management of the capital structure aims to integrate permanent sources of funds used for operational activities, which will increase the company's profits. Company profits can be proxied by Return on Equity (ROE). According to the trade-off theory, optimal debt can improve company performance. There is a significant relationship between capital structure and company performance (Dang et al., 2019). According to Wassie (2020), capital structure as measured by DER and LT/TA has a significant positive correlation with ROE and ROA. In addition, Dinh & Pham (2020) also concluded that capital structure (DAR) has a positive relationship with company performance and Ayaz et al. (2021) explained that the leverage ratio improves company performance.

H3. Capital Structure has a significant positive effect on Company Profitability

4. Effect of GCG on Profitability

GCG is one of the supporting factors that have an impact on the company's financial performance. GCG encourages professional, efficient and effective management of the company as well as empowering functions or increasing the independence of the company's organs. The results of Bappayo & Aliero's research (2021) state that GCG has a significant impact on the performance of the cement industry. Research by Ichani et al. (2021) stated that the GCG-forming variables consisting of institutional share ownership, managerial share ownership, directors, independent board of commissioners and audit committee have an effect on company profitability. GCG proxied by Institutional ownership is an external GCG monitoring mechanism. According to Haryono et al. (2017) more institutional ownership will improve company performance.

H4. GCG has a significant positive effect on Company Profitability

5. Effect of Profitability on Firm Value

Profitability is used as an indicator to assess the company. Based on signaling theory, high profitability gives a positive signal to investors because it gives confidence that in the future the company will provide profitable returns. According to Dewi & Sudiartha (2019), Felicia et al. (2022), and Linawati et al. (2022) profitability has a significant positive effect on firm value. Fadillah (2020) states that profitability is the biggest variable influencing company value.

H5. Profitability has a significant positive effect on firm value

6. Effect of Capital Structure on Firm Value mediated by Profitability

The capital structure is a comparison of the composition between the company's own capital (equity) and debt (liabilities). Optimal capital structure is a condition where the capital structure has a level of risk and rate of return in a balanced state so as to maximize firm value. Appropriate use of debt has a positive impact on increasing company profits. Companies are considered to benefit from the use of financial leverage because the use of debt financing results in an increase in the company's Earnings per Share and Return on Equity (Diana & Tjiptono, 2022). Based on signaling theory, when profitability increases, the company's stock price also increases as a result of the signals received by investors that the company promises good prospects in the future. So that it can affect the value of the company directly or indirectly. According to Santosa et al. (2022) profitability is able to mediate the effect of capital structure on firm value.

H6. Capital Structure has a significant positive effect on Firm Value through Profitability

7. Effect of GCG on Company Value mediated by Profitability

The objective of GCG is to properly distribute rights and responsibilities and thereby increase long-term shareholder value. The Indonesian Corporate Governance Forum (FCGI) also revealed that the implementation of GCG does not only have an impact on better company performance but also has a

positive impact on company value. Various studies have proven the positive effect of GCG on profitability and also the effect of profitability on firm value.

The results of Khasanah & Sucipto's research (2020) found that GCG had a significant indirect effect on company value or profitability, which proved to have a significant influence as an intervening variable. Research Muttaqin et al. (2019) also stated that profitability is able to mediate GCG and has a positive effect on company value.

H7. GCG has a significant positive effect on Company Value through Profitability

### 3. RESEARCH METHOD

Heavy Construction & Civil Engineering sub-sector companies listed on the Indonesia Stock Exchange in 2014-2021 with a total of 22 companies. In this study, the method or technique was the sampling technique (purposive sampling), namely the technique of determining the sample chosen specifically based on the research objective. Furthermore, the samples used in this study were 10 companies.

In this study, the sampling used non-probability sampling method with purposive sampling technique. The non-probability sampling method is a sampling technique that does not provide equal opportunities for each element or member of the population to be selected as a sample. While purposive sampling technique is a technique of determining the sample with certain considerations or criteria.

This type of research is causal research, and the approach of this research is a quantitative approach. Secondary data is used in this study. The data collected from published annual reports, such as balance sheets and income statements as well as stock price reports and those related to other research problems. The financial statements of the companies are the financial statements of companies that have gone public from 2014 to 2021 which have been audited by an independent public accountant.

### 4. RESULTS AND DISCUSSION

#### 4.1. Descriptive Statistical Analysis

Descriptive statistical analysis was carried out to find out the minimum value, maximum value, average value (mean), and standard deviation (standard deviation) which were obtained from Table 1, as follows:

1. The maximum debt to equity ratio is 35.47x at PT Acset Indonesia Tbk in 2019 with a minimum value of 0.55x at PT Nusa Construction Enjiniring Tbk in 2021. The average value is 2.613x and the standard deviation value is 4.075x. This shows that the variable debt to equity ratio is not normally distributed because the standard deviation is greater than the average of these variables.
2. The maximum value of return on equity is 28.38% at PT Nusa Raya Cipta Tbk in 2014 with a minimum value of -413.56% at PT Acset Indonesia Tbk in 2020. The average value is -4.13% and the standard deviation value is 65.38%. This shows that the variable return on equity is not normally distributed because the standard deviation is greater than the average of these variables.
3. The maximum value of institutional ownership is 0.825 at PT Waskita Karya (Persero) Tbk in 2021 with a minimum value of 0.236 at PT Surya Semesta Internusa Tbk in 2019. The average value is 0.59 and the standard deviation value is 0.12. This shows that the institutional ownership variable is normally distributed because the standard deviation is smaller than the average of these variables.
4. The maximum stock return value is 2.94 at PT Nusa Construction Enjiniring Tbk in 2021 with a minimum value of -0.69 at PT Jaya Construction Manggala Pratama Tbk in 2021. The average value is 0.082 and the standard deviation value is 0.647. This shows that the stock return variable is not normally distributed because the standard deviation is greater than the average of these variables.

Table 1. Descriptive Statistical Analysis

Indicator Statistics	N	DER	KI	ROE	SR
Means	80	2,613	0.59	-4.13%	0.082
Maximum	80	35,47	0.825	28.38%	2.94
Minimum	80	0.55	0.236	-413.56%	-0.69
Std. Dev	80	4,075	0.12	65.38%	0.647

#### 4.2. Classic Assumption Test

The classic assumption test results include: the normality test with Jarque-Bera and the significance level used  $\alpha = 0.05$ , the probability values of model 1 and model 2 are 0.316122 and 0.619168 or prob.  $> 0.05$ , it can be concluded that the data in this study were normally distributed. The multicollinearity test shows that there is no independent variable that has a Variance Inflation Factor (VIF) value of more than 10, which concludes that there is no multicollinearity between variables in the regression model.

Heteroscedasticity test was carried out using the Breusch-Pagan test, the probability values for model 1 and model 2 were 0.8241 and 0.1576 or prob.  $> 0.05$ , it can be stated that there is no heteroscedasticity. Assumptions regarding the independence of the residuals (non-autocorrelation) are made using the Durbin-Watson test. The calculation results obtained DW model 1 = 1.7834 or 1.7153  $< DW < 2.2847$  and DW model 2 = 1.893121 or 1.6882  $< DW < 2.3118$ , so it can be concluded that there is no autocorrelation.

#### 4.3. Hypotheses test

##### 4.3.1. Effect of capital structure (X1) and GCG (X2) on firm value (Y) with profitability (Z) as the intervening variable

Table 2. Output of the 1st Regression Model

Variable	Coefficient	t-Statistics	Probability
DER	0.115295	0.651371	0.5168
KI	13.7096	2.272042	0.0259
ROE	0.267615	5,916681	0.0348
C	-9.499048	-2.528438	0.0135
R-squared	0.173646		
Adjusted R-squared	0.141026		
F-statistics	5.323414		
Prob (F-statistic)	0.002204		

Based on Table 2, the DER regression coefficient is obtained at 0.115 with a probability of 0.5168 or greater than 0.05 which means that DER has no effect on SR where every 1% increase in DER will only have an impact on an increase in SR of 0.115%. The KI regression coefficient was obtained at 13.709 with a probability of 0.0259 or less than 0.05 which means that KI has a positive and significant influence on SR where every 1% increase in KI will have an impact on an increase in SR of 13.709%. The ROE regression coefficient was obtained at 0.267 with a probability of 0.0348 or less than 0.05 which means that ROE has a positive and significant effect on SR where every 1% increase in ROE will have an impact on an increase in SR of 0.267%. So, the first regression model is obtained as follows:

$$SR = 0.115 \text{ DER} + 13.709 \text{ KI} + 0.267 \text{ ROE}$$

##### Effect of capital structure on stock returns

From Table 2, it is known that the probability t-statistic is 0.5168 or prob.  $> 0.05$ , thus it can be stated that DER has no effect on SR.

### Effect of institutional ownership on stock returns

From Table 2, it is known that the probability t-statistic is 0.0259 or prob. < 0.05 , thus it can be stated that KI has a significant effect on SR.

### Effect of profitability on stock returns

From Table 2, it is known that the probability t-statistic is 0.0348 or prob. < 0.05 , thus it can be stated that ROE has a significant effect on SR.

### 4.3.2. Effect of capital structure (X1) and GCG (X2) on profitability (Z)

**Table 3. Output of the 2nd Regression Model**

Variable	Coefficient	t-Statistics	Probability
DER	0.354254	2 , 871237	0.0268
KI	12.99458	1 , 971326	0.0169
C	-11.50985	-3.621529	0.0005
R-squared	0.14136		
Adjusted R-squared	0.119057		
F-statistics	6.338325		
Prob (F-statistic)	0.00283		

Based on Table 3, the regression coefficient of DER is 0.354 with a probability of 0.0268 or less than 0.05 which means that DER has a positive and significant effect on ROE. Every 1% increase in DER will have an impact on an increase in ROE of 0.354% . The KI regression coefficient was obtained at 12.995 with a probability of 0.0169 or less than 0.05 which means that KI has a positive and significant influence on ROE where every 1% increase in KI will have an impact on an increase in ROE of 12.995% . So, the 2nd regression equation is obtained as follows:

$$\text{ROE} = 0.354 \text{ DER} + 12.995 \text{ KI}$$

### Effect of capital structure on stock returns

From Table 3, it is known that the probability t-statistic is 0.0268 or prob. < 0.05 , thus it can be stated that DER has a significant effect on ROE.

### Effect of institutional ownership on stock returns

From Table 3, it is known that the probability t-statistic is 0.0169 or prob. < 0.05 , thus it can be stated that KI has a significant effect on ROE.

### 4.3.3. Predictive Relevance (Q<sup>2</sup>)

To test the feasibility of the path analysis model , the value of predictive relevance (Q<sup>2</sup>) is used to determine the relevance of the independent variable to the dependent variable. From the calculations, the predictive relevance value (Q<sup>2</sup>) of 0.29046 or Q<sup>2</sup> > 0, it can be stated that the regression model has predictions that are relevant to explaining the phenomena in this study. The calculated value of Q<sup>2</sup> lies at 0.15 ≤ Q<sup>2</sup> < 0.35, the independent variable (exogenous) has medium predictive relevance for constructing the dependent (endogenous) variable.

### 4.3.4. Sobel Test



Table 6. Sobel Test Results

Independent variable	t-value	t-table	Conclusion
DER	2.58314371	1.96	ROE is able to mediate the effect of DER on SR
KI	1.87024795	1.96	ROE is not able to mediate the effect of KI on SR

The Sobel test results in Table 6 were obtained through a calculator at [www.quantpsy.org/sobel/sobel.htm](http://www.quantpsy.org/sobel/sobel.htm) with a t-count value of 2.58314371 or greater than 1.96, it can be stated that there is a mediating effect of ROE on the relationship between the effect of DER (X1) on Stock Returns (Y). Meanwhile, the result of the second regression model is obtained t value of 1.87024795 or less than 1.96, it can be stated that ROE is not able to mediate the effect on the effect of KI (X2) to Stock Returns (Y).

#### 4.4. Discussion

##### 4.4.1. Effect of DER (X1) on stock return (Y)

From Table 4, the results show that DER (X1) has no effect on stock returns (Y). Almost all construction companies run their business using debt due to large capital requirements. According to trade-off theory, debt that exceeds the optimal value has a negative impact on financial performance because the increase in financial costs is greater than the benefits of tax deductions (tax shield). Poor financial performance has a negative impact on decreasing company value.

The results of this study are in line with the research of Rajhans (2013), Puspita & Siswanti (2021) and Putro & Risman (2021) which state that capital structure has no effect on firm value and Tjong & Kurniawan (2021) that capital structure has no significant effect on returns share. In addition, the findings of this study support the theory of Modigliani & Miller (1958) which suggests that under certain key assumptions, firm value is not affected by its capital structure.

##### 4.4.2. Effect of institutional ownership (X2) on stock return (Y)

From Table 4, the results show that KI (X2) has a positive and significant effect to stock return (Y). The agency theory by Jensen and Meckling (1976) regarding the relationship between principals and agents supports the findings of this study. Institutional ownership is considered capable of monitoring the performance of managers in maximizing shareholder welfare, so that conflicts between shareholders and managers can be minimized and improve company performance (Haryono et al., 2017).

This research is in line with Oktaryani et al. (2017), Worokinasih & Zaini (2020) that GCG has a significant and positive effect on corporate value, Kamaliah (2020) that GCG can directly affect firm value, and Ji-Hyun & Su-Yol (2022) who support the positive effect of corporate governance on firm value.

##### 4.4.3. Effect of DER (X1) on ROE (Z)

The results in Table 5 show that DER (X1) has a positive and significant effect to profitability (Z). Optimal of debt used by the company in its capital structure will increase the company's net profit (trade-off theory). This research is in line with Dang et al. (2019), Wassie (2020), Dinh & Pham (2020), Ayaz et al. (2021), and Istan et al. (2021) which states that capital structure has a significant positive effect on company performance. Dang et al. (2019) found that a DER of 1% can generate an ROE of 9.7%.

##### 4.4.4. Effect of institutional ownership (X2) on ROE (Z)

The results in Table 5 show that institutional ownership (X2) has a positive and significant effect to profitability (Z). Institutional ownership is one of the external GCG monitoring mechanisms that functioned as a controller or monitor of the company's investment development. Institutional ownership has the ability to control management through an effective monitoring process so as to reduce earnings management (Emrinaldi, 2012). The decrease in agency costs has an impact on the increase in financial performance. In addition, managers also focus on company

growth.

The results of this study support previous studies such as Haryono et al. (2017) who found that more institutional ownership would improve company performance, Gombe & Aliero (2021) who stated that GCG had a significant impact on the performance of the cement industry, and Ichسانی et al. (2021) which provides a conclusion that the GCG forming variables consisting of institutional share ownership, managerial share ownership, directors, independent board of commissioners and audit committees have an effect on company profitability.

#### 4.4.5. Effect of ROE (Z) on stock return (Y)

From Table 4, the results show that ROE (Z) has a positive and significant effect to stock return (Y). The company aims to create profitability. A stable level of profitability can give investors confidence in the investments made because the company is considered good at generating profits so that the investment risk is low (Winarti et al., 2020). So, the higher of profitability will generate the better the company value.

Several previous studies such as Dewi & Sudiartha (2019) found company profitability to have a significant positive effect on stock returns, Fadillah (2020) who concluded profitability was the biggest variable influencing company value, Felicia et al. (2022), and Linawati et al. (2022) which suggests that profitability has a significant positive effect on firm value.

#### 4.4.6. Effect of DER (X1) on stock return (Y) with ROE as the intervening variable

From Table 6 found that ROE is able to mediate the effect of DER on stock returns. According to trade-off theory that the optimal of debt used by a company in its capital structure will increase the company's net profit . Based on the signaling theory, an increase in the company 's net profit raises confidence in investors due to the positive signal received that the company is able to provide the expected stock return in the future. The high demand of company's stock shares provides benefits for the company, which is increasing in company value (stock return).

This research is in line with Martono (2022) that profitability is able to mediate the effect of capital structure on firm value. However, it is different with research of Puspita & Siswanti (2021) that profitability (ROE) cannot mediate capital structure (DER) on firm value (PBV).

#### 4.4.7. Effect of institutional ownership (X2) on stock return (Y) with ROE as intervening variable

From Table 6 found that ROE is not able to mediate the effect of institutional ownership on stock returns. Good corporate governance (GCG) makes the company better. High institutional ownership makes shareholders able to control managers tightly. However, it can have a negative impact if the shareholders too restrain the manager's movements. Managers are not free to manage the company which might lead to demotivation and decreased profitability. According to signaling theory, declining profitability has an impact on decreasing company value due to negative signals received by investors. Investors are competing to sell shares and choose other companies or sectors. Thus, makes the company value worse.

The results of this study are in line with Oktaryani et al. (2017) which states that there is no direct effect of GCG on company value through profitability. However, it is different with the research by Muttaqin et al. (2019) that profitability is able to mediate GCG and has a positive effect on company value, and Khasanah & Sucipto (2020) who found that GCG has a significant indirect effect on company value or profitability has proven to have a significant influence as an intervening variable.

## 5. CONCLUSION

### 5.1. Conclusion

Based on the results and discussion above, it can be concluded as follow:

1. Capital structure has no effect on firm value.
2. GCG has a positive and significant effect on firm value.
3. Capital structure has a positive and significant effect on profitability.
4. GCG has a positive and significant effect on profitability.
5. Profitability has a positive and significant effect on firm value.
6. Profitability is able to mediate the effect of capital structure on firm value.
7. Profitability is not able to mediate the effect of GCG on firm value.

## 5.2. Implications and Limitations

Future researchers are advised to use more financial and GCG indicators as a variable with different industrial sector and possibly extend the period of research. This study only uses 2 (two) independent variables and the 2014-2021 period limits. The sector studied is still limited to the Heavy Construction & Civil Engineering sub-sector. Subsequent research allows the addition of objects and research periods in order to obtain a larger number of samples.

## 6. REFERENCES

1. Alghifari, ES, Hermawan, A., Gunardi, A., Rahayu, A., & Lili, AW (2022). Corporate financial strategy in an emerging market: Evidence from Indonesia. *Journal of Risk and Financial Management*, 15(8), 362. doi: <https://doi.org/10.3390/jrfm15080362>
2. Ater, DK (2017). Capital structure and firm value of non-financial firms listed at the Nairobi securities exchange. *Research Journal of Finance and Accounting*, 8(4), 18-22
3. Ayaz, M., Mohamed Zabri, S. and Ahmad, K. (2021). An empirical investigation on the impact of capital structure on firm performance: evidence from Malaysia, *Managerial Finance*, 47(8), 1107-1127
4. Dang, YTH, Bui, NTH, Dao, ATH, & Nguyen, HT (2019). The Impact of Capital Structure on Firm Performance – Empirical Evidence from Listed Food and Beverage Companies in Vietnam. *International Journal of Economics, Commerce and Management*, 7(2), 567-577
5. Diantimala, Y., Syahnur, S., Mulyany, R., & Faisal, F. (2021). Firm size sensitivity on the correlation between financing choice and firm value. *Cogent Business & Management*, 8(1), 1-19
6. Felicia, YRE, Simorangkir, EN, & Ginting, RR (2022). Analysis of the Effect of Profitability, Company Size and Growth Opportunity toward Firm Value with Capital Structure as Intervening Variable in Consumer Goods Companies Listed on Indonesia Stock Exchange period 2018-2020. *Journal of Economics, Finance and Management Studies*, Page No. 335-345
7. Gombe, BM, & Aliero, IH (2021). Imperative of corporate governance on industry's profitability: An empirical study of privatized cement industry in Nigeria. *Turkish Economic Review*, 8(2), 45-64
8. Haryono, SA, Fitriany, Fatima, E. (2017). Effect of Capital Structure and Ownership Structure on Company Performance. *Indonesian Journal of Accounting and Finance*, 14(2), 119-141
9. Ichسانی, S., Putri, ARPT, Aprianto, F., Hermawan, H., & Hanavi, R. (2021). Effect of Good Corporate Governance Mechanism on Company Profitability Ratios. *Turkish Journal of Computer and Mathematics Education*, 12(8), 1793-1805
10. Istan, M., Husainah, N., Murniyanto, M., Suganda, A., Siswanti, I., & Fahlevi, M. (2021). The effects of production and operational costs, capital structure and company growth on profitability: Evidence from manufacturing industry. *Accounting*, 7(7), 1725-1730
11. Jensen, Michael C. & Meckling, William H., 1976. Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, Elsevier, 3(4), pages 305-360
12. Ji-Hyun, L., & Su-Yol, L. (2022). Effect of the absence of unethical controlling shareholders on firm values and the moderating role of corporate governance: Evidence from South Korea. *Sustainability*, 14(6), 3607
13. Kamaliah. (2020). Disclosure of corporate social responsibility (CSR) and its implications for company value as a result of the impact of corporate governance and profitability. *International Journal of Law and Management*, 62(4), 339-354
14. Kasenda, F. (2020). Determinants of Capital Structure and Its Implications for Financial Performance of

- Construction Service Companies. *Palarch's Journal of Archeology of Egypt/Egyptology*, 17(7), 2334-2346
15. Khasanah, ID & Sucipto, A. (2020). The Effect of Corporate Social Responsibility (CSR) and Good Corporate Governance (GCG) on Corporate Values with Profitability as an Intervening Variable. *Journal of Accounting and Finance*, 17(1), 14-28
  16. Kurniati, S. (2019). Stock returns and financial performance as mediation variables in the influence of good corporate governance on corporate value, *Corporate Governance*, 19 (6), 1289-1309
  17. Kurniasih, A., Rustam, M., Helianton, & Endri, E. (2022). Cost of capital and firm value: Evidence from Indonesia. *Investment Management and Financial Innovations*, 19(4), 14-22
  18. Luu, DH (2021). The Impact of Capital Structure on Firm Value: A Case Study in Vietnam. *The Journal of Asian Finance, Economics and Business*, 8(5), 287–292
  19. M, Hirdinis. (2019). Capital Structure and Firm Size on Firm Value Moderated by Profitability. *International Journal of Economics and Business Administration*, 7(1), 174-191
  20. Modigliani, F., & Miller, M. (1958). The Cost of Capital, Corporation Finance, and the Theory of Investment. *American Economic Review*, 48(3), 261-297
  21. Natsir, K. & Yusbardini, Y. (2019). The Effect of Capital Structure and Firm Size on Firm Value Through Profitability as Intervening Variable. *Proceedings of the 8th International Conference on Entrepreneurship and Business Management (ICEBM 2019) UNTAR. Advances in Economics, Business and Management Research*, volume 145
  22. Oktaryani, GAS, Nugraha, IN, Sofiyah, S., Negara, IK, & Mandra, IG (2017). The Effect of Good Corporate Governance on Corporate Values with Profitability as an Intervening Variable. *Journal of Management and Business Science*, 5(2), 45-58
  23. Puspita, EA, & Siswanti, I. (2021). Effect of Capital Structure and Liquidation on Firms Value with Profitability as Intervening Variables. *Management Research Studies Journal*, 2(1), 11-27
  24. Putro, DC, & Risman, A. (2021). The Effect of Capital Structure and Liquidity on Firm Value Mediated by Profitability. *The EUrASEANs: Journal on Global Socio-Economic Dynamics*, 2(27), 26-34
  25. Rajhans, RK (2013). Financial determinants of firm's value: Evidence from Indian firms. *ZENITH International Journal of Business Economics & Management Research*, 3(5), 1-12
  26. Suhadak , S., Mangesti Rahayu , S. and Handayani , SR (2019). GCG, financial architecture on stock returns, financial performance and corporate values, *International Journal of Productivity and Performance Management*, 69 (9), 1813-1831
  27. Tjong, W., & Kurniawan, R. (2021). The Effect of Capital Structure on Stock Returns in Companies Listed on the Indonesia Stock Exchange for the 2015-2019 Period. *Journal of Management*, 12(1), 73-79
  28. Umayyah, E., & Salim, MN (2018). Financial Ratios, Company Size, Capital Structure and Their Impact on Non-Banking Company Value LQ-45 Category. *Indicator: Scientific Journal of Management and Business*, 2(3), 120-135
  29. Wassie, FA (2020). Impacts of capital structure: profitability of construction companies in Ethiopia. *Journal of Financial Management of Property and Construction*, 25(3), 371-386
  30. Worokinasih, S., & Zaini, M.L.Z. (2020). The mediating role of corporate social responsibility (CSR) disclosure on good corporate governance (GCG) and firm values. A technical note. *Australasian Accounting Business & Finance Journal*, 14(1), 88-96