e_Jurnal Ilmiah Riset Akuntansi Vol. 15 No. 01 2026, Hal 440-452
http://jim.unisma.ac.id/index.php/jra, ISSN :2302-706

# The Role of Profitability as Mediating Variable on The Impact of Investment Decisions and Capital Structure Toward Firm Value in Real Estate & Property Sector Companies Listed in The Indonesia Stock Exchange (2021–2024)

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## ABSTRACT

This study is to examine the effect of investment decisions and capital structure toward firm value with profitability for mediating variable real estate and property companies listed on the Indonesia Stock Exchange during the year of 2021–2024. This is motivated by inconsistent research in prior studies as well as the phenomenon of low firm value reflected in the Price to Book Value (PBV) ratio within the property sector. This is based on Agency Theory and also supported by Signaling Theory that explains the relationship between corporate financial decisions, profitability, and also firm value. This employs a quantitative approach by using Partial Least Squares–Structural Equation Modeling (PLS-SEM) and applies purposive sampling to determine the research sample. The variables include investment decisions proxied by Total Asset Growth (TAG), capital structure using Debt to Equity Ratio (DER), profitability by Return on Assets (ROA), and also firm value by Price to Book Value (PBV). Results indicate that investment decisions and also capital structure do not have a direct effect on firm value; however, both variables significantly influence profitability, and profitability significantly affects firm value. Furthermore, profitability is shown to fully mediate the relationship investment decisions and capital structure on firm value. These findings suggest that the impact of financial decisions on firm value does not occur directly but operates through the ability of a company to generate profits. The study implies effective management of investment decisions and also capital structure should be oriented toward improving profitability as the primary mechanism for enhancing firm value.

**Keywords:** Investment decisions; capital structure; profitability; firm value

## INTRODUCTION

In the last two years, firm value for the real estate & property has faced significant pressure. According to reports from idxchannel.com, several major issuers, such as BSD City (BSDE) and Pakuwon Jati (PWON), have been traded at low Price to Book Value (PBV) ratios of approximately 0.39x and 0.75x, respectively. This indicates that market stock prices are currently sitting below their book values. This condition is driven by high interest burdens and a sluggish recovery within the property sector, despite a downward trend in interest rates. Furthermore, a number of property stocks are still considered "undervalued" due to discounted valuations, while some issuers continue to face performance pressures stemming from unstable sales. This phenomenon demonstrates that firm value for the real estate & property is heavily driven by capital structure, then profitability, and market perception regarding the company's long-term prospects.

The increasingly dynamic economic development requires companies to continuously improve financial performance while maintaining investor confidence. In the context of the capital market, firm value serves as a primary indicator reflecting investor perceptions of a company's performance and future prospects. In recent years, the real estate & property sector in Indonesia has exhibited a phenomenon of relatively low firm value, reflected in Price to Book Value (PBV) ratios fall below ideal levels. This condition suggests that the market has not yet fully provided a positive valuation of the performance of companies within this sector (Safaruddin et al., 2023).

Firm value is affected by various financial decisions made by management, including investment decisions and capital structure. Investment decisions reflect how a company allocates funds into productive assets expected to generate future profits. Appropriate investment decisions can enhance asset productivity and give positive signals to the investors regarding the company's prospects (Purnama, 2016). Meanwhile, capital structure illustrates why a company finances their operational activities through a combination of the debt and equity. An optimal capital structure can improve financial efficiency. Excessive use of debt may instead increase financial risk and diminish firm value (Berk & DeMarzo, 2024).

Nevertheless, the relationship in investment decisions, capital structure, and also firm value is not always direct. In many cases, this influence depends on the company's ability for generating profit. Profitability gives the company's effectiveness in managing resources to produce earnings and serves as a critical indicator observed by investors (Rizaldo, 2024). Profitability stands as a primary indicator of management's success in optimizing resources, whether financed through equity or debt, to generate maximum returns for shareholders (Brigham & Houston, 2016: 105). In financial management, it serves as a critical evaluation tool reflecting the combined effectiveness of a company's investment policies and capital structures; proper investment decisions boost asset productivity, while a sound capital structure minimizes financing costs, collectively driving operational efficiency and profit growth (Astuti et al., 2021). Consequently, highly profitable companies project a positive image to investors because they demonstrate robust fundamental, operational, and financial effectiveness (Mutiara et al., 2024). Ultimately, strong profitability plays an essential role in enhancing overall firm value, as consistent earnings signal both managerial efficiency and operational stability to the market (Alathamneh et al., 2025).

Previous research has shown inconsistent results regarding the relationships between these variables. Some studies have found that investment decisions and also capital structure significantly influence firm value (Dewi, 2021), while other studies indicate capital structure does not own a significant effect toward firm value (Yuniastri et al., 2021). Furthermore, there is research suggesting that profitability is also capable of mediating the relationship between capital structure and firm value as well (Ayuningrum et al., 2017), yet other studies found that profitability does not serve as a mediator (Rizaldo, 2024). These inconsistencies in findings indicate a research gap that warrants next investigation.

Based on this phenomenon and the research gap, the study focuses on companies within the real estate & property sector listed in the Indonesia Stock Exchange for the year of 2021–2024. This sector was chosen because of its capital-intensive characteristics, high dependence on external funding, and significant performance fluctuations. This research utilizes investment decision variables proxied by Total Asset Growth (TAG), capital structure shown by the Debt-to-Equity Ratio (DER), profitability proxied by Return on Assets (ROA), and firm value shown by Price to Book Value (PBV).

**Research Contribution**

Ultimately, these findings are anticipated to advance the development of financial management literature by examining the influence of investment decisions and also capital structure on firm value through profitability as a mediating variable. In addition, this study strengthens the empirical application of Agency Theory and Signaling Theory in explaining corporate financial decision-making and its impact on firm value.

Furthermore, this study enriches the capital market literature by highlighting the mediating role of profitability in the relationship between financial decisions and firm value. Using financial statement data sourced from property and real estate firms publicly traded on the Indonesia Stock Exchange during 2021–2024, this research provides empirical evidence in a sector that is highly sensitive to financing decisions and market perceptions.

## LIBRARY REVIEW

### Agency Theory

Agency Theory as proposed by Jensen & Meckling, (1976) explains the relationship of company owners (principals) and also managers (agents) in conducting corporate activities. Within this relationship, there is also a potential for conflict of interest because each party may have different objectives. As the party managing the company, managers possess more information than the owners, which can lead to information asymmetry. This condition can influence the company's financial decision-making, including investment decisions and capital structure. Therefore, the decisions made by management must be able to reflect the interests of the owners in order to enhance firm value.

### Signaling Theory

Signaling Theory as introduced by Spence, (1973) explains that firms are capable of transmitting informational signals to external stakeholders particularly investors, by the information disclosed to the public. These signals may take the form of financial statements or corporate financial policies. Investment decisions and the capital structure chosen by a company can serve as either positive or negative clues to investors about how well the company will do in the future. Companies with strong performance tend to provide positive signals that can enhance investor confidence as well, ultimately leading to an increase on firm value.

### Firm Value

Firm value is an indicator that reflects investor perceptions of the company's performance with future prospects. In this study, firm value is measured using Price to Book Value (PBV), which shows the comparison of the market value of shares and also the company's book values. According to Brigham & Houston (2016), a high firm value shows the level of investor faith in the company's skill to generate profit. Therefore, increasing firm value is the primary objective in corporate financial management.

### Investment Decision

Investment decisions are corporate policies concerning the allocation of funds into productive assets expected to provide future returns. In this research, investment decisions are measured using Total Asset Growth (TAG). Appropriate investment decisions will enhance asset productivity and provide positive signals for investors regarding the company's growth prospects (Purnama, 2018). Thus, investment decisions play a vital role in improving company performance, particularly profitability.

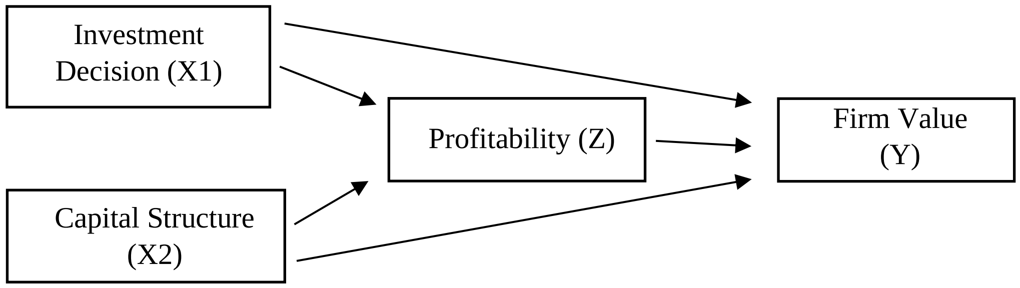
### Capital Structure

Essentially, a company's capital structure shows how it balances debt and equity to fund its operations. To analyze this mix, this study relies on the Debt to Equity Ratio (DER) as the primary metric. An optimal capital structure can enhance a company's financial efficiency, but excessive use of debt is able to increase financial risk (Brigham & Houston, 2016). Therefore, companies need to manage their capital structure effectively to support their financial performance.

### Profitability

Profitability is the company's competence to generate profit originating from the assets it owns. In this study, profitability is measured using Return on Assets (ROA). Profitability serves as a vital indicator in assessing company performance as it reflects management effectiveness in resource management. According to Rizaldo, (2024), companies with high profitability levels tend to receive positive responses from investors, which can subsequently increase firm value.

**Conceptual Framework**




**Picture 1. Conceptual Framework**

**Hypothesis**

H1= Investment decisions have a significant effect on profitability.
H2= Capital structure has a significant effect on profitability.
H3= Investment decisions have a significant effect on firm value.
H4= Capital structure has a significant effect on firm value.
H5= Profitability has a significant effect on firm value.
H6= Profitability mediates the impact of investment decisions on firm value.
H7= Profitability mediates the impact of capital structure on firm value.

## RESEARCH METHOD

**Type of Research**

This study adopts a quantitative approach, which focuses on using numerical data and statistical analysis in the hypothesis testing process. This study takes as its object the real estate & property companies listed on Indonesia Stock Exchange (IDX).

**Population and Sample**

The study focuses on real estate and property companies listed on the Indonesia Stock Exchange (IDX) between 2021 and 2024. To select the sample, a purposive sampling approach was applied, ensuring that the chosen companies meet specific criteria tailored to the research objectives.

**Definition and Operationalization of Research Variables**

**Investment Decision (X1)**

Investment decisions describe a company's policy in allocating funds into various productive assets with the aim of obtaining future profits. According to Gitman & Zutter Gitman & Zutter (2015: 266), these decisions relate to the process of determining asset placement, focusing on the selection of projects or investments with the most optimal rate of return to increase firm value. The indicator used to measure investment decisions is Total Asset Growth (TAG). Based on previous research by Fara & Fidiana, (2020) are as follows:

$$TAG = \frac{\text{Total Asset} - \text{Total Asset}_{-1}}{\text{Total Asset}}$$

**Capital Structure**

Capital structure reflects the composition of company funding derived from debt and equity to finance its operational activities. According to Brigham & Houston (2016: 474), capital structure is an optimally designed mix of debt and equity aimed at maximizing firm value while considering risk levels and the cost of capital. The indicator used to measure capital structure is the Debt to Equity Ratio (DER)., based on Seto et al., (2023: 47):

$$DER = \frac{\text{Total Debt}}{\text{Total Equity}}$$

**Profitability**

Profitability essentially captures a company's capacity to generate returns by making the most of its assets. It reflects just how effectively the management leverages its available resources to drive financial gain. According to Ross et al. (2019), Profitability serves as a key indicator of how efficiently a company deploys its resources to generate returns. In this study, this efficiency is captured and evaluated through Return on Assets (ROA). According to Seto et al., (2023: 51) profitability can be measured using the indicator:

$$ROA = \frac{\text{Net Income}}{\text{Total Asset}}$$

**Firm Value**

Firm value describes the market's view regarding the condition and prospects of a company. According to Berk & DeMarzo (2024: 284–288), firm value shows the market assesses a company's competence to generate future cash flows based on available information related to operational performance, risk levels, and growth prospects. The market stock price serves as the primary indicator reflecting investor assessment of the company's fundamental strength. The more effectively a company manages its operational and financial activities, the higher the value assigned by investors in the market. To gauge firm value, this study utilizes the Price to Book Value (PBV) ratio, drawing on the framework established Gitman & Zutter, (2015: 67), is:

$$PBV = \frac{\text{Market Price per Share}}{\text{Book Value per Share}}$$

**Data Sources and Data Collection Methods**

This study relies on secondary data sourced from the audited financial statements of real estate and property companies listed on the Indonesia Stock Exchange (IDX) for the 2021–2024 period. The entire dataset was retrieved directly from the official IDX website.

**Data Analysis Methods**

To analyze the data, this study applies a Partial Least Squares-Structural Equation Modeling (PLS-SEM) approach, executed through the SmartPLS version 4 software.

## RESEARCH RESULT AND DISCUSSION

### 1. Descriptive Statistical Analysis

Descriptive analysis is employed to outline the overall profile and characteristics of the research data rather than as a tool for drawing generalized conclusions.

**Table 1 Results for Descriptive Analysis**

| No. | Variable | Mean | Median | Min Value | Max Value | Standard Deviation |
|---|---|---|---|---|---|---|
| 1. | ID | 0.025 | 0.009 | -0.220 | 0.519 | 0.095 |
| 2. | CS | 0.699 | 0.481 | 0.000 | 4.308 | 0.705 |
| 3. | P | 0.011 | 0.008 | -0.132 | 0.184 | 0.047 |
| 4. | FV | 0.975 | 0.658 | 0.067 | 4.427 | 0.940 |

**Source:** Smart-PLS 0.4 Processing Results, 2026

Based on descriptive analysis results above:

1. The Firm Value variable has mean of 0.975 and also median of 0.658, indicating that the research sample has a book value relatively comparable to its market value.
2. The Investment Decision variable has mean of 0.025 and also median of 0.009, indicating that sample has a relatively low investment growth rate.
3. The Capital Structure variable has mean of 0.699 and also median of 0.481; this describes that the sample companies use a significant amount of debt compared to their equity.
4. The Profitability variable has mean of 0.011 and also median of 0.008, describing that the research sample can generate 1.1% from total assets.

**2. Outer Model**

a. Convergent Validity Test

**Table 2 Convergent Validity**

| Construct | Outer Loading | AVE | Description |
|---|---|---|---|
| Investment Decision | 1,000 | 1,000 | Valid |
| Capital Structure | 1,000 | 1,000 | Valid |
| Profitability | 1,000 | 1,000 | Valid |
| Firm Value | 1,000 | 1,000 | Valid |

**Source:** Smart-PLS 0.4 Processing Results, 2026

The measurement model evaluation shows that all indicators across the research variables yield outer loadings exceeding 0.7 and Average Variance Extracted (AVE) values above 0.50. These results confirm that the requirements for convergent validity have been fully satisfied, establishing the robustness of the data for further analysis.

b. Discriminant Validity

**Table 3 Discriminant Validity (HTMT)**

| Construct | ID | CS | P | FV |
|---|---|---|---|---|
| Investment Decision | - | 0.099 | 0.187 | 0.089 |
| Capital Structure | 0.099 | - | 0.292 | 0.028 |
| Profitability | 0.187 | 0.292 | - | 0.174 |
| Firm Value | 0.089 | 0.028 | 0.174 | - |

**Source:** Smart-PLS 0.4 Processing Results, 2026

Referring to the HTMT test table, the resulting values are below 0.90 for all constructs (ranging from 0.028–0.292), meaning that the discriminant validity between constructs in this study has been fulfilled.

c. Construct Reliability Test

**Table 4 Construct Reliability**

| Construct | *Composite Reliability* | *Cronbach's Alpha* |
|---|---|---|
| Investment Decision | 1,000 | 1,000 |
| Capital Structure | 1,000 | 1,000 |
| Profitability | 1,000 | 1,000 |
| Firm Value | 1,000 | 1,000 |

**Source:** Smart-PLS 0.4 Processing Results, 2026

Both the Cronbach's Alpha and Composite Reliability scores across all research constructs reached 1.000. These results exceed the minimum standard of 0.70, so it can be concluded that each instrument used has very strong reliability.

**3. Inner Model**

**1. R – Square ($R^2$)**

**Table 5 R-Square Test ($R^2$)**

| Variable | R-square |
|---|---|
| Firm Value | 0.039 |
| Profitability | 0.132 |

**Source:** Smart-PLS 0.4 Processing Results, 2026

The $R^2$ test results show that the Investment Decision and Capital Structure variables can explain 13.2% of the variation on Profitability ($R^2$ = 0.132), and the remaining 86.8% influenced by variables out of the model. On the other hand, the model testing the influence of Investment Decisions, Capital Structure, and also Profitability on Firm Value only yielded an $R^2$ value of 0.039.

**2. Effect-Size ($f^2$)**

**Table 6 Effect- size ($f^2$)**

| **Relationship** | **$f^2$** | **Interpretation** |
|---|---|---|
| Investment Decision → Profitability | 0,054 | Small effect |
| Capital Structure→ profitability | 0,112 | Small effect |
| Investment Decision → Firm Value | 0,002 | Very small effect |
| Capital Structure→ Firm Value | 0,006 | Very small effect |
| Profitability → Firm Value | 0,032 | Small effect |

**Source:** Smart-PLS 0.4 Processing Results, 2026

The $f^2$ effect size test results reflect the Capital Structure variable having the largest contribution to Profitability ($f^2$ = 0.112), followed by Investment Decisions on Profitability ($f^2$ = 0.054). The impact of Profitability on Firm Value is in the small category ($f^2$ = 0.032). Meanwhile, the influence of Investment Decisions and Capital Structure on Firm Value shows very small contributions, at 0.002 and 0.006, respectively.

**3. Predictive Relevance($Q^2$)**

**Table 7 the Result of Predictive Relevance ($Q^2$)**

| **Variable** | ***$Q^2$ Predict*** |
|---|---|
| Profitability | 0,114 |
| Firm Value | -0.008 |

**Source:** Smart-PLS 0.4 Processing Results, 2026

The $Q^2$ predictive relevance test results show that the Profitability variable has a value of 0.114. This positive figure indicates that the model has good predictive relevance, where Investment Decisions and Capital Structure contribute to predicting variations in Profitability. Conversely, the Firm Value variable produced a $Q^2$ value of -0.008.

**4. Hypothesis Testing**

**Table 8 Hypothesis Testing**

| **No.** | **Relationship Between variables** | **Coefficient (β)** | **t-statistic** | **p-value** | **Description** |
|---|---|---|---|---|---|
| 1. | Investment Decision → Profitability | 0.218 | 3.087 | 0.002 | Significant |
| 2. | Capital Structure → profitability | -0.313 | 5.929 | 0.000 | Significant |
| 3. | Investment Decision → Firm Value | 0.046 | 0.645 | 0.519 | Not significant |
| 4. | Capital Structure → Firm Value | 0.079 | 1.243 | 0.214 | Not significant |
| 5. | Profitability → Firm Value | 0.189 | 3.002 | 0.003 | Significant |
| 6. | Investment Decision → Profitability → Firm Value | -0.059 | 2.619 | 0.009 | Intervening Significant |
| 7. | Capital Structure→ Profitability → Firm Value | 0.041 | 2.231 | 0.026 | Intervening Significant |

**Source:** Smart-PLS 0.4 Processing Results, 2026

**Discussion**

Due to the results of the hypothesis testing was obtained:

**a. The Influence of Investment Decision on Profitability**

Due to the test results, investment decisions have a positive and also significant effect on profitability (coefficient 0.218; t-statistic 3.087; p-value 0.002); therefore, the first hypothesis is accepted. This indicates that a rise in the quality of investment decisions will be followed by an increase in the company's competence to generate profit, as appropriate investments are able to optimize the use of assets and resources. This finding is supported by Purnama (2016), Mutiara et al. (2024), and Yulia et al. (2025) who state that investment decisions influence profitability.

The research findings demonstrate that investment decisions have a positive and significant effect on profitability, indicating that management's ability to select productive investments and allocate resources efficiently is essential for increasing profit. Therefore, companies must be more selective and conduct thorough feasibility analyses to ensure investments improve asset utilization, operational efficiency, and long-term productivity, as profitability reflects effective resource management (Jirwanto et al., 2024). Ultimately, appropriate investment decisions can strengthen sustainable financial output.

These findings help Agency Theory, which explains the managers, acting as agents, are responsible for making strategic decisions that align with shareholders' interests. Appropriate investment decisions reflect management's effectiveness in allocating company resources efficiently, thereby improving profitability. In this context, successful investment decisions indicate that management has fulfilled its role in maximizing company performance and reducing agency conflicts through better financial outcomes.

**b. The Influence of Capital Structure on Profitability**

The analysis results show capital structure has a negative and significant impact on profitability (coefficient -0.313; t-statistic 5.929; p-value 0.000); thus, the second of the hypothesis is accepted. This condition indicates that an increase in the proportion of debt can actually suppress company profits due to interest expenses. Consequently, the higher the use of debt, the greater the potential for a decrease in profitability. This result is consistent with Fadmala et al. (2023), Adelin et al. (2022), dan Mutiara et al. (2024) who state that capital structure influences profitability.

The research findings demonstrate capital structure shows a negative and significant effect on profitability, indicating higher debt levels tend to reduce a company's competence to generate profit based on increased interest expenses. Therefore, companies must manage their capital structure carefully by balancing debt and equity to keep debt at an optimal level and prevent excessive financing costs from reducing profitability. (Jirwanto et al., 2024). Furthermore, as emphasized by Brigham & Houston (2016), effective utilization of debt is essential to support profit growth, while ineffective debt management only increases financial risk without improving overall financial performance.

These findings help Agency Theory which states that managerial financial decisions directly influence company performance. In this study, excessive debt usage appears to burden profitability through higher interest expenses, indicating that ineffective financing decisions may create inefficiencies and reduce shareholder wealth. Therefore, management must carefully determine the ideal capital structure that effectively curbs agency costs while driving maximum profitability.

**c. The Influence of Investment Decision on Firm Value**

Due to the tests conducted, investment decisions do not show a significant effect for firm value (coefficient 0.046; t-statistic 0.645; p-value 0.519); therefore, the third hypothesis is rejected. This reflects that investment decisions can not provide a direct effect on increasing firm value. This condition suggests that investors tend not to respond to investment decisions directly, as they focus more on the resulting financial performance of the company. This finding diverges from the core assumptions of signaling theory, which is suggested by Salsabila (2024), Miranda et al. (2025), and Yulia et al. (2025) who state that investment decisions influence firm value.

The findings indicate that investment decisions do not directly improve investor perception or firm value, suggesting that investment activity alone is not a primary driver of market valuation. Therefore, companies must ensure that investment decisions generate tangible financial results and improve earnings, as investors tend to prioritize actual performance over strategic decisions. In addition, transparent reporting is essential to build investor confidence and also support higher firm value (Brigham & Houston, 2016: 10-11).

From the side of Agency Theory, management is expected to make investment decisions that increase shareholder wealth through higher firm value. However, the insignificant result indicates that the investment decisions made by management have not yet been perceived by the market as actions capable of directly increasing firm value. This finding also suggests that Signaling Theory is not fully supported, as investment decisions alone have not provided a strong enough positive signal to influence investor perceptions directly.

**d. The Influence of Capital Structure on Firm Value**

The empirical results indicate that capital structure fails to exert a significant influence on firm value (coefficient 0.079; t-statistic 1.243; p-value 0.214); therefore, the fourth hypothesis is rejected. It indicates that the composition of company funding is not the primary factor in determining firm value. It suggests that investors consider the overall performance of the company more than the capital structure used. This is not in line with Fadmala et al. (2023), Adelin et al. (2022), Nainggolan et al. (2023), and Adityaputra & Perdana (2024) who state that capital structure influences firm value.

These findings indicate that the level of debt for a company's capital structure does not affect firm value, as investors tend to prioritize overall performance and profitability over funding composition. Therefore, companies have to focus on managing both debt and also equity effectively to generate optimal returns and enhance firm value (Jirwanto et al., 2024: 92). Ultimately, ensuring that financing decisions directly support productive activities is crucial, as an unbalanced capital structure devoid of profit-generating capability fails to enhance firm value, making the efficiency and effectiveness of fund utilization the more critical factor for driving market success (Supiyanto et al., 2023).

Agency Theory provides a robust framework for explaining these particular outcomes, management is expected to choose financing policies that maximize shareholder value. However, the insignificant result indicates that capital structure decisions alone are not sufficient to directly enhance firm value, implying that investors place greater emphasis on how effectively management utilizes those funds rather than on the funding composition itself. This also indicates that Signaling Theory is not fully reflected, since capital structure has not been perceived by investors as a direct positive market signal.

**e. the Influence of Profitability on Firm Value**

The test results reveal that higher profitability significantly drives up firm value, indicating that stronger earnings enhance market appreciation (coefficient 0.189; t-statistic 3.002; p-value 0.003); therefore, the fifth hypothesis is accepted. This implies that as a firm's capacity for wealth generation improves, the higher the firm value, as profitability serves as the primary indicator in investor assessment. This research is consistent with Fadmala et al. (2023), Adelin et al. (2022), Nainggolan et al. (2023), Adityaputra & Perdana (2024), Salsabila(2024), and Mutiara et al. (2024) who state that profitability influences firm value.

These findings demonstrate that profitability is a key indicator for investors in assessing company performance, as highly profitable companies are perceived to have stronger prospects and lower risks, thereby increasing investor confidence. Since profitability reflects financial performance and resource management efficiency, it contributes directly leading to an appreciation in stock prices and overall firm value. Thus, companies should prioritize profitability to improve asset efficiency and strengthen firm value (Jirwanto et al., 2024). Furthermore, companies need to maintain consistent financial performance to prevent sharp fluctuations; sustaining stable earnings fosters long-term investor confidence, reinforces positive market perceptions, and ultimately ensures a sustainable increase in overall firm value (Supiyanto et al., 2023).

These findings support Agency Theory, which explains that management's primary responsibility is to maximize shareholder wealth. Higher profitability indicates successful managerial performance in utilizing company resources efficiently, which increases investor confidence and ultimately enhances firm value. This result also supports Signaling Theory, as strong earnings send a reassuring signal to investors about the company's growth potential.

**f. The Influence of Investment Decision on Firm Value through Profitability**

The analysis shows investment decisions have a significant impact on firm value through profitability (t-statistic 2.619; p-value 0.009); thus, the sixth hypothesis is accepted. This indicates that investment decisions do not provide a direct impact on firm value, but it has to pass through increased profitability as an intervening variable. This finding is supported by Yulia et al. (2025) who state demonstrating that profitability successfully bridges the impact of investment decisions on firm value.

These findings confirm the existence of full mediation, where the direct effect of investment decisions on firm value becomes non-significant after profitability is introduced as an intervening variable (Baron & Kenny, 1916). This indicates that investment decisions can enhance firm value only when they successfully improve profitability. Therefore, companies must ensure that investment decisions are oriented toward increasing financial performance and conduct regular evaluations to ensure investments contribute to profitability and ultimately improve firm value (Jirwanto et al., 2024)

These findings support Agency Theory, stating that management decisions should ultimately maximize shareholder wealth. The results indicate that investment decisions made by management can only improve firm value when they successfully increase profitability, showing that profitability serves as the mechanism through which managerial investment decisions achieve shareholder objectives. In addition, from the side of Signaling Theory, increased profitability becomes the positive signal received by investors, which then contributes to higher firm value.

**g. The Influence of Capital Structure on Firm Value through Profitability**

The empirical evidence confirms that capital structure indirectly shapes firm value, with profitability serving as a significant intervening mechanism (t-statistic 2.231; p-value 0.026); therefore, the seventh hypothesis is accepted. This implies that the effect of capital structure on firm value is fully indirect, channeled through profitability as the underlying mechanism. This finding is in line with Fadmala et al. (2023) who state that Profitability serves as a vital bridge, fully transmitting the indirect impact of capital structure onto firm value.

These findings confirm the existence of full mediation, where the direct impact of capital structure in firm value becomes non-significant after profitability is introduced as an intervening variable (Baron & Kenny, 1916). This indicates that changes in capital structure directly drive firm valuation only through its ability to improve profitability, making profitability the key mechanism linking the two variables. Therefore, capital structure can not directly affect firm value; instead, effective financing decisions that enhance profitability can improve financial performance and ultimately increase firm value.

These findings support Agency Theory which emphasizes management's responsibility in determining optimal financing decisions to maximize shareholder wealth. The results show that capital structure affects firm value only through profitability, indicating that management must ensure financing decisions contribute effectively to profit generation before they can enhance firm value. Furthermore, based on Signaling Theory profitability acts as the signal received by investors, explaining why financing decisions influence firm value indirectly rather than directly.

## CONCLUSION, AND RECOMMENDATIONS

### Conclusion

Due to the results and discussion, it is able to be concluded where investment decisions have a positive and significant effect on profitability, while capital structure gives negative and significant effect on profitability, indicating that appropriate investment management increases profit, whereas excessive debt tends to reduce it. However, investment decisions and also capital structure do not directly affect firm value, suggesting that investors prioritize company performance over financial decisions alone. In contrast, profitability has a positive and also significant effect on firm value, making it an important indicator of company performance and prospects. Furthermore, profitability which is proven to fully mediate the effect of investment decisions and capital structure toward firm value, indicating that their influence on firm value occurs indirectly through the company's competence to generate profit.

### Limitation

The limitations of this study include the use of limited variables, namely investment decisions, capital structure, profitability, and firm value, which may not fully capture other factors influencing firm value such as company size, growth, or the conditions of macroeconomics. Additionally, this study focuses only on the real estate and property sector during the 2021–2024 period, limiting the generalizability of the findings. The use of additional data from published financial statements also depends on the completeness and accuracy of the reported data. Furthermore, although profitability was found to mediate the relationship between variables, the research model may not fully explain all possible relationships, indicating the potential existence of other mediating or influencing factors.

### Recommendations

Based on the conclusions and limitations of this study as well, the next research is recommended to develop a more comprehensive model by adding other variables related to firm value, such as company size, sales growth, and macroeconomic factors. Future studies are also encouraged to expand the research scope by involving different industrial sectors and longer observation periods to improve the generalizability of the findings. In addition, improving data quality through stricter sample selection and exploring other potential mediating variables beyond profitability may provide more understanding of the relationships among the variables.

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