WHETHER PROFITABILITY INTERVENES THE POSSIBILITY OF LEVERAGE ON THE FIRM VALUATION IN EASTERN EUROPE?

THESIS

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DEPARTMENT OF MANAGEMENT FACULTY OF ECONOMICS STATE ISLAMIC UNIVERSITY (UIN) MAULANA MALIK IBRAHIM MALANG

2024

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THESIS

Submitted to:
State Islamic University (UIN) Maulana Malik Ibrahim Malang
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a Bachelor of Management (SM) Degree.

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2024

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WHETHER PROFITABILITY INTERVENES THE POSSIBILITY OF LEVERAGE ON THE FIRM VALUATION IN EASTERN EUROPE?

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DECLARATION LETTER

The undersigned hereby :

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I declare that the "thesis" that I made to fulfill the requirements for graduation from the Department of Management, Faculty of Economics, State Islamic University (UIN), Maulana Malik Ibrahim Malang, with the title:

WHETHER PROFITABILITY INTERVENES THE POSSIBILITY OF LEVERAGE ON THE FIRM VALUATION IN EASTERN EUROPE? is my own work, not a "duplication" of the work of others.

Furthermore, if in the future there are "claims" from other parties, it is not the responsibility of the supervising lecturer or the faculty of economics but my own.

Thus, I make this statement without coercion from anyone.

Malang, March 8th 2024

Regards,

Dea Nabila Hasna

NIM : 200501110238

FOREWORD

All praise is due to Allah SWT because by His grace and guidance, this research can be completed with the title "Whether Profitability Intervenes The Possibility Of Leverage On The Firm Valuation In Eastern Europe?".

Shalawat and salam may we remain devoted to our Lord, the great Prophet Muhammad SAW, who has guided us from darkness to the path of goodness, namely Din al-Islam.

The author realizes that the preparation of this final thesis will not succeed well without the guidance and contribution of thoughts from various parties. On this occasion, the author expresses his deepest gratitude to:

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5. Mother, father, brother, and all family members who always provide prayers and support morally and spiritually.

Finally, with all humility the author realizes that the writing of this thesis

is far from perfect. Therefore, the author expects constructive criticism and suggestions for the perfection of this writing. The author hopes that this simple work can be of good use to all parties. Amin ya Robbal 'Alamin.

Malang, March 8th, 2024

The author

ABSTRAK

Dea Nabila Hasna. 2024, SKRIPSI. Judul: "Apakah Profitabilitas Mengintervensi Kemungkinan Leverage Terhadap Penilaian Perusahaan di Eropa Timur?"
Pembimbing : Dr. Indah Yuliana, SE., MM
Kata Kunci : Polandia, Romania, Leverage, Profitabilitas, Nilai Perusahaan.

Penelitian ini bertujuan untuk mengidentifikasi pengaruh leverage terhadap nilai perusahaan dengan profitabilitas sebagai variabel intervening di negara-negara berkembang di Eropa Timur. Penelitian ini menggunakan pendekatan asosiatif sebagai metodologi. Untuk penelitian ini, sampel demografis terdiri dari perusahaan yang terdaftar di bursa efek warsawa dan Bursa Efek Bukares dalam sektor konstruksi dan *real estate*. Sampel dikumpulkan dari 44 perusahaan dengan menggunakan metode pengambilan sampel bertarget. Para penulis menggunakan data yang disebarluaskan oleh perusahaan di situs web resmi bursa saham. Data yang digunakan dalam penelitian ini terdiri dari data kuantitatif yang diperoleh dari sumber sekunder. Penelitian ini menggunakan analisis jalur sebagai metodologi dan program Smart PLS versi 3.0 sebagai alat bantu.

Hasil penelitian menunjukkan bahwa leverage tidak mempengaruhi nilai perusahaan melalui profitabilitas di kedua sektor di Polandia, kedua sektor di Rumania, sektor Real Estat di Polandia, sektor konstruksi di Rumania, dan sektor real estat di Rumania. Sebaliknya, Leverage mempengaruhi nilai perusahaan melalui profitabilitas di sektor Konstruksi Polandia. Penelitian ini secara eksklusif meneliti entitas yang termasuk dalam daftar spesifik perusahaan konstruksi dan real estat di negara-negara berkembang di Eropa Timur. Diharapkan penelitian ini dapat memberikan saran kepada manajemen perusahaan mengenai pentingnya profitabilitas untuk meningkatkan nilai perusahaan. Penelitian ini menguji pengaruh leverage terhadap nilai perusahaan, dengan profitabilitas sebagai variabel intervening, pada perusahaan Konstruksi dan Real Estate yang terdaftar di Polandia dan Romania.

ABSTRACT

Dea Nabila Hasna. 2024, *THESIS*. *Title*: "*Whether Profitability Intervenes The Possibility Of Leverage On The Firm Valuation In Eastern Europe?"*
Advisor : Dr. Indah Yuliana, SE., MM
Keywords : *Poland, Romania, Leverage, Profitability, Firm Value.*

This paper intends to identify the influence of leverage on corporate value with profitability as an intervening variable in developing countries of Eastern Europe. This research employs an associative approach methodology. The demographic sample for this research comprises exclusively construction and real estate enterprises that are publicly included in the Poland Stock Exchange and Romanian Stock Exchange. The samples were collected from his 44 enterprises utilizing a targeted sampling method. The writers utilized the data disseminated by the firm on the official websites of the Stock Exchange. The data utilized in this investigation comprises quantitative data acquired from secondary sources. The research employed path analysis as the methodology and the Smart PLS version 3.0 program as the tool.

From the outcomes of this research, it can be inferred that leverage does not influence firm value through profitability in both sectors of Poland, both sectors of Romania, the Real Estate sector of Poland, the construction sector of Romania and the real estate sector of Romania. Contrary, Leverage affects firm value through profitability in the Construction sector of Poland. This research exclusively examines the entities included in a specific list of construction and real estate firms in developing countries of eastern Europe. It is expected that this paper will provide suggestions for corporate management regarding the importance of profitability for improving corporate value. This research examines the influences of leverage on company value, with profitability as an intervening variable, among the Construction and Real Estate enterprises listed in Poland and Romania.

المستخلص

الملخصديا نبيلة حسناء 2024، الرسالة. العنوان: "ما إذا كانت الربحية تتدخل في إمكانية تدخل الرافعة المالية على تقييم الشركة في أوروبا الشرقية؟
المستشار : د. إنداه يوليانا، ماجستير في إدارة الأعمال
.الكلمات المفتاحية : بولندا، رومانيا، الرافعة المالية، الربحية، قيمة الشركة

تهدف هذه الورقة البحثية إلى تحديد تأثير الرافعة المالية على قيمة الشركات مع الربحية كمتغير متدخل في البلدان النامية في أوروبا الشرقية. ويستخدم هذا البحث منهجية المنهج الترابطي. وتتألف العينة الديموغرافية لهذا البحث حصريًا من شركات الإنشاءات والعقارات المدرجة في بورصة وارسو وبورصة بوخارست. وقد جُمعت العينات من شركاته الـ 44 باستخدام أسلوب أخذ العينات المستهدفة. واستخدم الكاتبان البيانات التي نشرتها الشركة على المواقع الإلكترونية الرسمية للبورصة. تتألف البيانات المستخدمة في هذا التحقيق من بيانات كمية تم الحصول عليها من مصادر ثانوية. واستخدم البحث تحليل المسار كمنهجية وبرنامج Smart PLS الإصدار 3.0 كأداة للبحث.

من نتائج هذا البحث، يمكن الاستدلال على أن الرافعة المالية لا تؤثر على قيمة الشركة من خلال الربحية في كلا القطاعين في بولندا، وكلا القطاعين في رومانيا، وقطاع العقارات في بولندا، وقطاع البناء في رومانيا، وقطاع العقارات في رومانيا. وعلى النقيض من ذلك، تؤثر الرافعة المالية على قيمة الشركة من خلال الربحية في قطاع الإنشاءات في بولندا. يفحص هذا البحث حصريًا الكيانات المدرجة في قائمة محددة من شركات الإنشاءات والعقارات في البلدان النامية في أوروبا الشرقية. ومن المتوقع أن يقدم هذا البحث اقتراحات لإدارة الشركات فيما يتعلق بأهمية الربحية لتحسين قيمة الشركات. يفحص هذا البحث تأثيرات الرافعة المالية على قيمة الشركة، مع الربحية كمتغير متدخل، بين شركات الإنشاءات والعقارات المدرجة في بولندا ورومانيا.

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CHAPTER I
INTRODUCTION

1.1 Research Background

The construction and real estate industries in Eastern European developing nations are expanding rapidly, with the real estate sector projected to reach $11.85 trillion by 2023. The residential real estate sector is expected to dominate, with a market value of $9.4 trillion in 2023. The market is predicted to increase at a compound annual growth rate (CAGR). between 2023 and 2028, reaching $15.48 trillion by 2028. China is projected to generate the highest real estate value globally, reaching $131.2 trillion by 2023. The source of the information is the website: https://www.mordorintelligence.com.

Considering the evident prevalence of market flaws in developing economies (see, e.g. Bondzie Afful & Opoku, 2021; Demİr, 2009; Kiymaz, 2013; Varela, 2017), the study examines firms in Poland and Romania's construction and real estate industries from 2018-2022. Both countries are experiencing growth in their sectors, focusing on modern and environmentally friendly commercial real estate infrastructure. Poland is expected to expand further in 2023. Both countries are recognized as successful players in the market, with ongoing projects in office, retail, and green spaces. The growth of local real estate markets depends on establishing modern and environmentally friendly infrastructure.

Misconceptions arise when a surge in stock prices is mistakenly seen as a boost in corporate profits, leading to increased value. Company managers

aim to maximize profitability, which can be achieved by investing in projects with superior returns on capital and improving sales volume. As profits rise, shareholders expect dividends, reflecting the company's reputation and the expectation of increased profits.(Mangesti Rahayu et al., 2020). Debt investments, such as debt and fresh stock issues, offer entrepreneurs capital and a broader range of possibilities for growth without relying on private funds. They also increase tax revenue by reducing profits deducted from taxes. However, debt can also impose financial hardships, such as interest and principal payments, influencing a company's financial flexibility. Prioritizing external capital through debt increases the risk of firm insolvency due to poor decision-making, while corporate bonds increase operational risk during periods of declining profits. (Groth & Anderson, 1997) Efficient layouts can reduce capital costs, increasing profitability and corporate value. However, relying solely on debt can accumulate liabilities, leading to insolvency. There is currently no precise algorithm for finding the ideal balance between debt and equity in a company's capital structure. Weston et al. (1996) said, “Increased debt increases a firm's risk as it requires specific earnings before interest and tax threshold’’. Companies with high debt are more precarious. However, if economic conditions improve, they can achieve greater earnings. Businesses must maintain financial equilibrium by establishing an optimal Debt to Equity Ratio, as debt and equity represent a corporation's capital structure. The optimal capital structure hypothesis was proposed by (Modigliani & Miller, 1963). Larger ownership stakes are recommended to

avoid cash flow disruptions in low-earning companies. Debt financing is efficient and generates profits. The trade-off theory suggests corporations balance tax benefits with financial difficulties. Management failure occurs when agency costs rise due to insolvency or loss of credibility. The ideal debt ratio is achieved by obtaining the highest tax shield. (Myers & Majluf, 1984) Financially successful organizations often have lower debt levels due to their ample internal resources. However, incorrect capital structure decisions can lead to significant negative outcomes. Overutilization of external money through debt can result in increased expenses and financial jeopardy if the company cannot meet interest or installment obligations. This research aims to examine leverage's influence on company value, with profitability serving as an intermediary variable.

This research drew upon other earlier studies as individual references, specifically examining the influence of leverage on profitability. (Chen et al., 2019; Grau & Reig, 2021; Mahmudin et al., 2019; Meghanathi & Chakrawal, 2021), leverage on firm value (Admi, 2019; Amin & Mollick, 2021; Bosch-Badia et al., 2017; Chow et al., 2018; Karimi, 2020; Saputri & Bahri, 2021; Zhang & Zhou, 2020) and profitability on firm value (Fransisca & Herijawati, 2022; Mahdi & Khaddafi, 2020; Nanda & Panda, 2018; Tarsono, 2021). This research uniquely includes the leverage-variable Debt-to-Assets Ratio (DAR) as an indicator. This is significant because previous studies have shown conflicting results and employed other indicators. A comparable analysis was carried out on Debt-to-Equity (DER). Nevertheless,

we employed Return on Assets (ROA) and Return on Equity (ROE) as indicators for the profitability characteristics. In light of this context, the findings of this research make a valuable addition to the existing body of research on the influence of leverage on business value in developing nations of Eastern Europe. Moreover, the anticipated outcomes are likely to have significant ramifications for the financial worth of shareholders in Eastern Europe, a rapidly expanding economy in transition.

1.2 Problem Statement

1. Does leverage have a substantial impact on profitability in construction & real estate? sector industrial companies in developing countries of the Eastern European Union in 2018-2022?
2. Does leverage have a substantial impact on firm value in construction & real estate sector industrial companies in developing countries of eastern European Union in 2018-2022?
3. Does profitability have a substantial impact on the value of the Company in the construction & real estate sector industrial companies in developing countries of eastern European Union in 2018-2022?
4. Can profitability significantly intervene the bearing of leverage on enterprise worth industrial companies in the construction & real estate sector of developing countries in eastern Europe in 2018-2022?

1.3 Purposes

1. To ascertain the significant effect of leverage on profitability in construction & real estate sector industrial companies in developing countries of the eastern European Union in 2018-2022.
2. To ascertain the important impact of leverage on firm value in construction & real estate sector industrial companies in developing countries of eastern European Union in 2018-2022.
3. To ascertain the significant effect of profitability on the value of the Company in the construction & real estate sector industrial companies in developing countries of eastern European Union in 2018-2022.
4. To ascertain the role of profitability in intervening the effect of leverage on firm value in industrial companies in the construction & real estate sector of developing countries in eastern European Union in 2018-2022.

1.4 Advantages

1.4.1 Theoretical Advantage

It is expected that this paper will provide suggestions for corporate management regarding the importance of profitability for improving corporate value

1.4.2 Practical Advantage

1. As a reference for comparative studies with similar research and sectors in different countries.
2. For researchers, it is expected as a form of practicing college knowledge.

1.5 Research Limitation

Based on the above background, the authors only use two calculation indicators for each variable. The proxy for profitability variables uses the calculation of Return on Assets (ROA) and Return on Equity (ROE). This study also sets the Debt to Asset Ratio (DAR) and Debt to Equity Ratio (DER) as a proxy for Leverage and Price Book Value (PBV) Tobin's Quantified Value serves as an indirect measure for the enterprise's encourage variable.

CHAPTER II
LITERATURE REVIEW

2.1 Previous Studies

In this previous research, it is hoped that researchers can see the difference between the research that has been done and the research being conducted. In addition, it is also hoped that in this study it can be noted about the shortcomings and advantages between previous research and the research being conducted..

First, research by Chen, Z., Harford, J., & Kamara, A. (2019) with the title "Operating Leverage, Profitability, and Capital Structure." Some of the control variables used in the analysis are firm size, fixed assets to total assets ratio, market assets to book ratio, research and development normalized by sales, cash flow volatility, industry average book leverage, cash dividends scaled by assets, and cash holdings scaled by assets. This review analyzes the population of annual Compustat industry data from 1963 to 2016. The testing strategy employed is the Fama-MacBeth (1973) regression approach for conducting cross-sectional tests. The findings indicate a strong positive relationship between operating leverage and profitability, while also revealing a significant negative relationship between operating leverage and financial leverage.

Furthermore, research by Mahmudin (2019) with the title " The Impact of Present Ratio, Debt to Equity Ratio (Der), a total turover of assets, and Firm Scale on Return on Equity (Roe) between Mining Firms Registered on Indonesia's Stock Exchange in 2013-2018.". The testing strategy used is

Multivariate linear correlation approach. The results indicated that the present ratio, Debt to Ratio of Equity, a total turnover of assets, and Firm Scale all had a substantial impact on Return on Equity (ROE). The test results indicate that the Debt to Equity Ratio and Firm Scale have a favorable and noteworthy impact on Return on Equity. a total turnover of assets has an important and advantageous effect on return on equity (ROE). In measuring deeper hypotheses, the present ratio has no discernible impact on Yield on Equity.

Furthermore, research by Grau, A., Reig, A. (2021) with the title "Operating leverage and profitability of SMEs: agri-food industry in Europe." control variables in this study These factors, which have been extensively studied in financial literature, have consistently demonstrated their strong ability to explain profitability: business volume (LSALES), liquidity (LIQUID), and cash flow (CASH). The testing strategy used is static panel data, cross-sectional data. The results show Operating leverage or cost structure not only impacts profitability but also influences the connection between profitability and other risk factors that vary based on the country of operation. Debt, size, innovation specificity, and reputation all have varying impacts on profitability, based upon the firm's capacity for operating leverage.

Furthermore, research by Meghanathi, P., & Chakrawal, A. (2021) with the title "Impact of Financial Leverage on Profitability of Reliance Industries." Researchers examined the relationship between financial leverage, dividend payout ratio (DPR), return on assets, and company size in

their study. Researchers examined the relationship between financial leverage, dividend payout ratio (DPR), return on assets, and company size in their study. The findings indicate that there is no substantial correlation between financial leverage and NPR, while there is a noteworthy positive correlation between financial leverage and EPS, ROE, and ROA. The regression results indicate that there is no substantial impact between leverage and profitability of companies listed in Reliance Industries Ltd during the study period.

Furthermore, research by Bosch-Badia, M.-T., Montllor-Serrats, J., Panosa-Gubau, A.-M., & Tarrazon-Rodon, M.-A. (2017), with the title "Corporate real estate, capital structure and value creation..". Understanding the relationship between corporate real estate decisions and capital structure can provide valuable insights for strategic thinking in this field. The testing strategy employed is to explore The actual validity of the leasing scenario in Exploring REIT regimes in various countries within the European context in terms of commercial rental demand. The testing strategy used is The results showed Identified were the analytical relationships between tax savings, bankruptcy costs, default options, and default barriers in the decision-making process of renting versus buying real estate.

Furthermore, research by Chow, Y. P., Muhammad, J., Bany-Ariffin, A. N., & Cheng, F. F. (2018), with the title "Macroeconomic uncertainty, corporate governance, and corporate capital structure,". The variables used include Consider the size of the company, its sales, the tangibility of its

assets, and macroeconomic factors such as exchange rates and inflation rates. The testing strategy employed is a dynamic panel estimation procedure known as system GMM estimation for panel data (Blundell & Bond 1998). The results showed analytical relationships with tax savings, bankruptcy costs, default options, and default barriers were identified for the decision of renting- vs. -buying real estate.

Furthermore, research by Karimi, G. (2020), with the title "Effect of Financial Leverage on the Trend of Stock Pricing Fluctuations in Companies Listed on the Tehran Stock Exchange," Among descriptive research, as in this study, This research focuses on analyzing the variables that have already occurred in the past, making it a post-event research. Post-event research involves examining the results to understand the relationship between specific factors and conditions that have occurred. The findings indicate that the use of financial leverage has a notable impact on the pattern of stock price volatility in publicly traded firms.

Furthermore, research by Xiang Zhang & Han Zhou. (2020) with the title "Stock returns, oil prices, and leverage: evidence from US firms." The variables in this study are CSMAR and the WIND database, which focuses on the China equity market and Accounting Research. The testing strategy employed involves the residual standard deviation of various asset pricing models, including the Fama-French three-factor model, the EGARCH model, and the classical model. The findings indicated that the influence of operating and financing leverage on stock price synchronicity was unfavorable. In

addition, the impact increases as the stock price synchronicity rises. In addition, the impact of financing leverage diminishes as the company's profitability improves, although there is no interaction effect for operating leverage. On the other hand, as the firm's market capitalization increases, the impact of financing leverage becomes more significant. However, this interaction effect is not observed for operating leverage. Finally, given the nature of state-owned firms, the impact of operating leverage and financing leverage will be more pronounced.

Furthermore, research by Amin, M. R., & Mollick, A. V. (2021), with the title "Leverage structure and stock price synchronicity: Evidence from China," Stock returns are the dependent variable, with corporate leverage and oil price returns as the main independent variables. The testing strategy used is a fixed-effects model estimation framework. The results show that the leverage effect on stock returns is pervasive both at the aggregate level and across industries, while the mining industry is particularly susceptible to changes. Furthermore, the authors note that the mining sector experiences a more pronounced impact of leverage, while the overall influence of oil prices is diminished. With a greater exposure to commodity prices, the mining sector's stock returns are counterbalanced by high debt ratios, dampening the positive impact of oil prices. Asymmetry, the impact of debt maturity structure, and its implications are also explored.

Furthermore, research by Nanda, S., & Panda, A. K. (2018), with the title "The determinants of corporate profitability: an investigation of Indian

manufacturing firms," found that variables in this study, including earnings on assets and net profit margin (NPM) are used to estimate company earnings. Panel Generalized Least Squares (GLS) and panel Vector Auto Regression (VAR) testing strategies used are panel data, which allows A comprehensive approach to addressing the issue of simultaneity bias caused by endogenous regressors in estimating equations and allows for unique but indistinct influences may affect econometric outcomes. The outcomes show that in the short run, exchange rate changes do not increase profitability, Yet in eternity, they increase profitability as Volatility in the nominal exchange rate positively affects profitability. Furthermore, the study found that the actual exchange rate index is more insightful and forecasts earnings more effectively than the actual exchange rate measurement in the case of manufacturing enterprises in India throughout the duration of the investigation.

Furthermore, research by Mahdi, M., & Khaddafi, M. (2020), with the title "The Influence of Gross Profit Margin, Operating Profit Margin, and Net Profit Margin on the Stock Price of Consumer Good Industry in the Indonesia Stock Exchange in 2012-2014," As we analyze the data, we observe a connection between the stock price (Y) and the independent variables (X) such as Gross Profit Margin (X1), Operating Profit Margin (X2), and Net Profit Margin (X3). Specifically, there appears to be a partial relationship between the gross profit margin (X) and the stock price (Y), as well as the operating profit margin (X2) having an effect on stock price (Y),

and net profit margin (X3) having an effect on stock price (Y). The testing strategy used is The common assumption check comprises of three main premises: regularity, plurality, and heterogeneity. The outcomes revealed concurrently a notable and beneficial impact of margin on net profit, margin of profit, and Gross Profit Margin on stock prices in consumer products Commerce Companies identified on the Indonesian Stock Exchange, and whereas slightly net income margin and gross profit margin had no advantageous and inadequate effect on share cost in consumers Manufacturing Companies laid out on the Indonesian Stock Exchange, whereas running profit margin primarily contributed to favorable prominent effect.

Furthermore, research by Ono Tarsono. (2021) with the title "The Effect of Debt Equity Ratio, Return on Equity, and Net Profit Margin on Stock Prices." The variables in that inquiry include, among others, debt-to-equity ratio (DER), return on equity (ROE), and net profit margin (NPM). The testing strategy employed is multiple linear regression analysis. The findings indicate that certain factors, such as debt-to-equity ratio, return on equity, and net profit margin, impact stock prices. According to the coefficient of determination, these ratios collectively account for 54.6% of the influence. It is advisable for investors and potential investors to carefully examine and analyze these ratios when considering investments.

Furthermore, research by Fransisca, V., & Herijawati, E. (2022), with the title "The Influence of Interest Rate, Exchange Rate, Profitability,

and Liquidity on Stock Prices," found that variables in this study include interest rate, exchange rate, gross profit margin, and current ratio. The testing strategy used is multiple linear regression analysis. Based on the findings, it was observed that interest rates do not have a notable impact on stock prices. Similarly, exchange rates were found to have no effect on stock prices. However, the study revealed that profitability, specifically its influence on gross profit margin, does affect stock prices. On the other hand, the liquidity associated with the current ratio was found to have no impact on stock prices. Meanwhile, interest rates, exchange rates, profitability, and liquidity affect stock prices.

Tabel 2.1 Previous Research Table

Relation	Previous Studies	Variable	Method	Result
X → Z Leverage to Profitabilitas	Chen, Z., Harford, J., & Kamara, A. (2019). Operating Leverage, Profitability, and Capital Structure. *Journal of Financial and Quantitative Analysis, 54*(1), 369-392. doi:10.1017/S0022109018000595	log sales (LOG_SALES), fixed assets to total assets ratio (TANGIBILITY), market assets to book ratio (MTOB), research and development normalized by sales (RD), cash flow volatility (CFV), industry average book leverage (LEVMED), cash dividends scaled by assets (DIV), and cash holdings scaled by assets (CASH).	Fama-MacBeth (1973) regression approach to conduct cross-sectional tests.	Operation leverage has an extensive a advantageous connection with profitability but a significant negative correlation with monetary leverage.
	Mahmudin, M., Lau, E. A., & Tandirerung, B. (2019). The Effect Of Current Ratio (Cr), Debt To Equity Ratio (Der), Total Asset Turnover (Tat) And Firms Size (Fs) To Return On Equity (Roe) In Mining Companies Listed On The Indonesia Stock Exchange In 2013 -2018.	Current Ratio (CR), Debt to Equity Ratio (DER), Total Asset Turnover (TAT) dan Firm Size (FS)	multiple linear regression	The Present Rate, Debt to Ratio of Equity, a total turnover of assets, and Firm Size (FS) all have a substantial impact on Return on Equity (ROE). The test results indicate that the Debt to Equity Ratio (DER) and Firm Size (FS) have an influential and beneficial impact on Return on Equity (ROE). a total turnover of assets has a considerable and beneficial effect on return on equity (ROE). Compared to other theories, the present ratio has no substantial impact on

	https://api.semanticscholar.org/CorpusID:212935752			Returning on Capital.
	Grau, A., Reig, A. (2021) Operating leverage and profitability of SMEs: agri-food industry in Europe. *Small Bus Econ* **57**, 221–242	business volume (LSALES), liquidity (LIQUID) and cash flow (CASH).	static data panel, cross-sectional data	Operation leverage, or cost pattern, influences not only profitability but also the link between profitability and other sources of risk, contingent on the country in which the firm operates. Indeed, debt, size, innovative specificity, and reputation all have an impact on profitability to varying degrees, relying on the firm's amount of leverage for operation.
	Meghanathi, P., & Chakrawal, A. (2021). Impact of Financial Leverage on Profitability of Reliance Industries. Journal La Bisecoman; Vol. 2 No. 5 (2021): Journal La Bisecoman; 15-22 ; 2721-124X ; 2721-0987.	financial leverage as the Independent Variable and Dividend Payout Ratio (DPR) as the Dependent Variable as well as Return on Assets and Company Size as the Control Variables.	Correlation and Linear regression	It has no substantial association between financial leverage and NPR, although a large positive relationship exists between financial leverage and EPS, ROE, and ROA. The regression results demonstrate that leverage had no meaningful effect on the profitability of the firms featured on Reliance Industries Private Limited during the research for a while.
X → Y Leverage to Firm Value (interpreted	Bosch-Badia, M.-T., Montllor-Serrats, J., Panosa-Gubau, A.-M., & Tarrazon-Rodon, M.-A.	Real estate company decisions, capital structure and interweaving different approaches	explores the practical application of the leasing scenario	Analysis correlations between decreased taxes, insolvency expenses, default alternatives, and default restrictions are established for the rent-versus-buy real

with the stock price)	(2017). Corporate real estate, capital structure and value creation. *Journal of European Real Estate Research*, *10*(3), 384–404. https://doi.org/10.1108/JERER-11-2016-0043		in the European context by examining the REIT regimes in different countries in terms of commercial rental demand.	estate choices.
	Chow, Y. P., Muhammad, J., Bany-Ariffin, A. N., & Cheng, F. F. (2018). Macroeconomic uncertainty, corporate governance and corporate capital structure. *International Journal of Managerial Finance*. https://api.semanticscholar.org/CorpusID:158956960	firm size, sales, and asset tangibility, and macroeconomic variables, namely exchange rate and inflation rate.	dynamic panel estimation procedure, namely system GMM estimation for panel data (Blundell & Bond 1998). Bond 1998)	The three major kinds of macroeconomic uncertainty, which are foreign sources of macroeconomic uncertainty, domestic sources of macroeconomic uncertainty, and volatility as a macroeconomic consequence, all have a considerable impact on company capital structure. Further investigation demonstrates that various types of macroeconomic uncertainty influence the capital structure of enterprises in both developing and developed countries. As a result, policymakers should develop suitable strategies to mitigate the negative consequences of macroeconomic uncertainty and consider the numerous characteristics of macroeconomic uncertainty in policy making.
	Karimi, G. (2020). Effect of Financial Leverage on	listed companies in Tehran Stock Exchange	panel data regression method	Leverage from finance has a substantial influence on the pattern of stock price

	the Trend of Stock Pricing Fluctuations in Companies Listed in Tehran Stock Exchange. Propósitos y Representaciones. Journal of Educational Psychology; Special Number: Educational Psychology Practices in Europe and the Middle East; E654 ; Propósitos y Representaciones; Número Especial: Prácticas de La Psicología Educativa En Europa y Medio Oriente; E654 ; 2310-4635 ; 2307-7999 ; 10.20511/Pyr2020.v8nSPE2.		and EViews software were used	fluctuation in publicly traded firms.
	Xiang Zhang, & Han Zhou. (2020). Leverage structure and stock price synchronicity: Evidence from China. PLoS ONE, 15(7), 0235349.	China Stock Market and Accounting Research (CSMAR) and WIND database	standard deviation of residuals from the Fama-French three-factor asset pricing model, EGARCH model, and classical	Leverage in operations and finance reduces stock price synchronization. Furthermore, the stronger the stock price synchrony, the greater the impact. Moreover, the incidental impact of financing leverage decreases as the firm's profitability improves, whereas there is

			model	no interaction effect for operating leverage. In contrast, the incidental impact of financing leverage increases as the firm's market capitalization grows, while no interaction effect occurs for operating leverage. Finally, because the enterprises are state-owned, the indirect impacts of operational and financing leverage will be greater.
	Amin, M. R., & Mollick, A. V. (2021). Stock returns, oil prices and leverage: evidence from US firms. International Journal of Managerial Finance. https://doi.org/10.1108/ijmf-06-2021-0257	The dependent variable is stock return, while the main independent variables are corporate leverage and oil price return.	fixed-effect model estimation framework	Leverage has a ubiquitous influence on stock returns both at the aggregate level and across sectors, with the mining industry being particularly vulnerable. In addition to the favorable impact of leverage on oil prices at the aggregate level, the authors find that leverage has a higher marginal effect solely in the mining sector. The favorable influence of oil prices on stock returns in the mining industry is mitigated by high debt ratios. Asymmetry, the impact of debt maturity structure, and its ramifications are also addressed.
Z → Y Profitability to firm Value	Nanda, S., & Panda, A. K. (2018). The determinants of corporate profitability: an investigation of Indian	return on assets (ROA) and the Net Profit Margin (NPM) are considered as proxy for corporate profits. The panel Generalized Least	Panel data allow for a thorough treatment of simultaneity bias	Exchange rate adjustments do not boost profitability in the short term, but they do in the long run because nominal exchange rate volatility is beneficial to profitability. Furthermore, this research

	manufacturing firms. *International Journal of Emerging Markets*, *13*(1), 66–86. https://doi.org/10.1108/IJoEM-01-2017-0013	Square (GLS) and Panel Vector Auto Regression (VAR)	arising from endogenous regressors estimating equations and allow for firm-specific but unobservable effects that may affect econometric results. that may affect the econometric results.	discovered that the nominal exchange rate index is more informative and better predicts profitability than the actual exchange rate index in the case of Indian manufacturing enterprises throughout the study period.
	Mahdi, M., & Khaddafi, M. (2020). The Influence of Gross Profit Margin, Operating Profit Margin and Net Profit Margin on the Stock Price of Consumer Good Industry in the Indonesia Stock Exchange on 2012-2014. International Journal of Business, Economics, and Social Development; Vol 1, No 3 (2020); 153-	The dependent variable (Y) is the stock price, while the independent variables (X) are Gross Profit Margin (X1), Operating Profit Margin (X2), and Net Profit Margin (X3). Partial relationship can be seen from Gross Profit Margin (X) Stock Price (Y), Operating Profit Margin (X2) has an effect on Stock Price (Y), and Net Profit	classical assumption test, which consists of 3 basic assumptions, namely normality, multicollinearity, and heteroscedasticity. heteroscedasticity	Net profit margin, operating profit margin, and gross profit margin all have a simultaneous positive and significant effect on stock prices in Consumer Goods Industry Companies listed on the Indonesia Stock Exchange, while operating profit margin has a partially positive and significant effect.

	163 ; 2722-1156 ; 2722-1164 ; 10.46336/Ijbesd.V1i3.	Margin (X3) has an effect on Stock Price (Y).		
	Ono Tarsono. (2021). The Effect Of Debt Equity Ratio , Return On Equity , Net Profit Margin On Stock Prices. International Journal of Social Science; Vol. 1 No. 4: December 2021; 393-398 ; 2798-4079 ; 2798-3463 ; 10.53625/Ijss.V1i4.	Debt to equity ratio (DER), Return to equity (ROE), Net profit margin (NPM)	multiple linear regression analysis	The debt equity ratio, return on equity, and net profit margin all have an impact on the stock price. Based on the coefficient of determination, Debt Equity Ratio, Return On Equity, and Net Profit Margin have a 54.6% effect. It is advised that investors and prospective investors review and examine the ratios that influence the total stock price.
	Fransisca, V., & Herijawati, E. (2022). The Influence of Interest Rate, Exchange Rate, Profitability, and Liquidity on Stock Prices. eCo-Buss; Vol. 5 No. 2 (2022): eCo-Buss; 416-428 ; 2622-4305 ; 2622-4291 ; 10.32877/Eb.V5i2.	Interest Rate, Exchange Rate, Gross Profit Margin, Current Ratio	various checks that arise directly by using the SPSS 25 adaptation program.	Stock prices are unaffected by interest rates, currency rates, profitability, or gross profit margin, and liquidity, as measured by the current ratio. Meanwhile, interest rates, currency rates, profitability, and liquidity all influence stock prices.

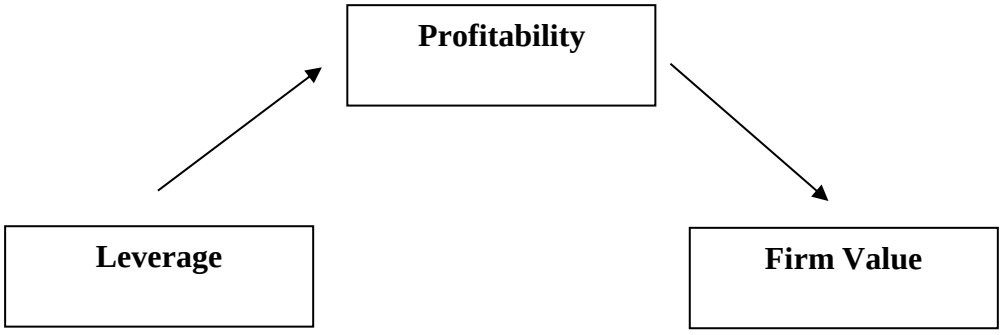
The existence of inconsistent research results based on different backgrounds and factors, The authors of this research attempted to take the object of construction and real estate sector enterprises in emerging nations of the eastern European Union in the period 2018-2022, which had never been tested before.

2.3 Conceptual Framework

There is a divergence in research findings and theories concerning the impact of profitability, operating leverage, and liquidity on firm value. This suggests that there may be additional factors that are believed to influence the relationship between these variables and firm value.

Within this context, the author incorporates the capital structure variable as an intermediary factor that will determine whether the capital structure variable (DER) can impact the correlation between profitability variables (ROA, ROE), operating leverage, and liquidity (CR, QR) on firm value (PBV). In order to provide clarity regarding the relationship between variables, the conceptual framework in this study is outlined as follows:

Table 2.2 Conceptual Framework



Source: Data processed by researchers, 2024

As per the conceptual framework mentioned, the indicators used to assess leverage are Debt to Asset Ratio (DAR) and Debt to Equity Ratio (DER), while firm value is evaluated using Price to Book Value (PBV) and Tobin's Q indicators. The addition of profitability variables as measured by the Return on Asset (ROA) and Return on Equity (ROE) indicators is intended to be a variable that can mitigate the impact of leverage on company worth.

2.4 Theory and Hypothesis

2.4.1 Leverage on Profitability

The trade-off principle states that a business can use external debt to increase profitability since the tax deduction for interest paid on such debt (Modigliani & Miller, 1963). Conversely, As per the pecking order hypothesis, companies generally prefer external debt over stock because of the lower costs associated with information asymmetry in debt compared to equity. (Myers, 1984; Silva Serrasqueiro & Rêgo Rogão, 2009). From this idea, the market would probably underestimate the value of a company's newly issued shares due to the unequal distribution of information between management and investors regarding a company's investment prospects. (Myers & Majluf, 1984).

Monetary leverage can increase or decrease profitability, depending on the trade-off, pecking order, and agency cost theories. Contradictory conclusions regarding the correlation between leverage and profitability have been found in literary works from industrialized

nations such as the US, the UK, France, Belgium, Italy, Germany, and Norway (Berger & Bonaccorsi di Patti, 2006; Frank & Goyal, 2003; Margaritis & Psillaki, 2007; Molina, 2005; Phillips & Sipahioglu, 2004; Wald, 1999). In this context, some of the prior studies (Berger & Bonaccorsi di Patti, 2006; Jensen, 1986; Kraus & Litzenberger, 1973; Margaritis & Psillaki, 2007; McConnell & Servaes, 1990; Ruland & Zhou, 2005; Wald, 1999). Discover that the utilization of financial leverage has a beneficial influence on profitability. Conversely, a portion of the research (Baker & Wurgler, 2002; Booth et al., 2001; Gill et al., 2011; Goddard et al., 2005; Krishnan & Moyer, 1997; Miller, 1977; Myers, 1977; Opler & Titman, 1994; Phillips & Sipahioglu, 2004; Rajan & Zingales, 1995; Roy & Witt, 1976; Titman & Wessels, 1988) Establish a negative correlation from financial leverage and profitability. Additionally, there is a continuous flow of studies. (Bae et al., 2017; Campello, 2006; Pattitoni et al., 2014; Weill, 2008) These findings demonstrate a non-linear correlation between the financial structure of a company and its performance in industrialized nations. The following is the formulation of the investigation's first hypothesis:

H1: Leverage significantly influences profitability.

2.4.2 Leverage on firm value

Modigliani & Miller (1963) said, When discussing the economy of Arrow-Debreu, it is said any alterations in company value caused by increases in debt might be eliminated with the counterbalancing exchange transactions (MM proposition I). Arbitration is feasible because

any modification in a company's stock return resulting from variations in leverage can be entirely attributed to alterations in a distinct set of systematic attributes that make up the stock's risk. Therefore, in markets without friction, any positive influence of leverage on stock returns would be completely negated by altering their level of risk (according to MM proposition II). During their presentation of the fundamental concepts, MM admitted the existence of market flaws that could potentially disrupt the arbitrage process. (Modigliani & Miller, 1958). In practical terms, outside of the realm of modern portfolio theory, alterations in financial leverage may not be advantageous if they are entirely ascribed to previously identified systematic causes and might thus exert an independent influence on the value of a corporation. The literature provides evidence of many processes by which leverage influences business value, as outlined below. Traditionally, the deductibility of taxes and the expenses associated with bankruptcy influence enterprises to make a trade-off in order to select the most advantageous level of debt that maximizes their value. (see, e.g. Kraus & Litzenberger, 1973; Miller, 1977; Modigliani & Miller, 1963). Companies take into account various costs associated with altering their leverage in order to optimize their worth. (see, e.g. Baker & Wurgler, 2002; DeAngelo & Roll, 2015; Ho Et Al., 2020; Liu Et Al., 2020; Nguyen Et Al., 2021). Moreover, the utilization of leverage can also

influence funding and expansion opportunities, which in turn can influence equity performance. (see e.g. Gilje, 2016; Lin, 2015).

(Modigliani & Miller, 1963) Stated that ‘’utilizing debt to finance activities enhances corporation values due to the increased tax shield resulting from interest payments on the loan”. (Granzer et al., 2006) Additionally, it was stated that the capital structure enhances the overall company's valuation. (Cheng et al., 2010) It is noteworthy because any alterations to the debt proportion exist. A direct influence on the overall value of the company, either favourably or negatively. Furthermore, (Kodongo et al., 2014) discovered that capital structure exerts a favorable influence on Tobin's Q. The second assumption of this inquiry is outlined as follows:

H2: Leverage significantly influences firm value.

2.4.3 Profitability on Firm Value

The market capitalization ratio is a metric that can be used to quantify corporate worth. The market capitalization ratio is a significant metric that indicates the relationship between share prices and a company's profitability and corporate worth. This indicator enables firm management to comprehend the creditors' response to the company's performance and future prospects. (Mahdi & Khaddafi, 2020) Simultaneously, the net revenue margin, operational earnings margin, and gross earnings margin exerted a noteworthy and beneficial influence on the stock price.

However, in certain instances, the net profit margin and gross profit margin did not exhibit a favorable influence on the stock price, and their influence was minimal. (Tarsono, 2021) Discovered that Return On Equity influences stock prices. In addition, (Fransisca & Herijawati, 2022) Discovered that the level of profitability, which directly influences the gross earnings margin, directly influences the stock price. Put simply, a company's worth increases in direct proportion to its earnings. The high earnings of a firm indicate positive future prospects and lead to an increase in demand for the company's stock among investors. The profitability ratio assesses a company's capacity to create profit through its operational activities. This enables investors to evaluate the efficacy utilized by a corporation that employs its assets in its commercial activities to generate profits. The profit margin is the outcome of a company's diverse policies and decisions. When there is an increase in demand for a company's stock, the company's value also grows. According to this interpretation, the third assumption of the current investigation is outlined as follows.

H3: Profitability significantly influences firm value.

According to relationship between leverage on profitability (c; Grau & Reig, 2021; Mahmudin et al., 2019; Meghanathi & Chakrawal, 2021), leverage on firm value (Admi, 2019; Amin & Mollick, 2021; Karimi, 2020; Saputri & Bahri, 2021; Zhang & Zhou, 2020) and profitability on firm value (Fransisca & Herijawati, 2022; Mahdi &

Khaddafi, 2020; Nanda & Panda, 2018; Tarsono, 2021). This research examines the influence of profitability on the correlation between leverage and business value. From the explanation provided, the fourth hypothesis of this investigation is stated as follows:

H4: Profitability significantly influences the influence of leverage on the value of a corporation

2.5 Islamic Integrity Studies

2.5.1 Firm Value in Islamic Perspective

Allah Swt. says in the Qur'an in Surah Al Jatsiyah / 43: 13 which reads:

وَسَخَّرَ لَكُمْ مَا فِي السَّمَاوَاتِ وَمَا فِي الْأَرْضِ جَمِيعًا مِنْهُ ۚ إِنَّ فِي ذَٰلِكَ لَآيَاتٍ لِقَوْمٍ يَتَفَكَّرُونَ

Meaning : "And He has subjected for you what is in the heavens and what is all, (as a mercy) from Him. Surely in such things are signs for those who think." (QS. Al-Jatsiyah / 43: 13)

Based on tafsir jalalayn QS. Al-Jatsiyah verse 13 means (And He subjected for you what is in the sky) in the form of the sun the moon the stars, rainwater and others (and what is on earth) in the form of animals, trees, plants, rivers and others. That is, He created them for your use (all of them) this Jamii'an memorization serves as a Taukid, or confirms the meaning of the previous memorization (from Him) this Minhu memorization becomes Hal or an adverb of the situation, meaning that all of them are subdued by Him. (Indeed, in such things there are signs of Allah's power and oneness for those who think) about it, so then they believe.From the above verse, we can understand that Allah SWT. Only provides raw facilities on this earth, while for exploration and

oplimalization is the duty of humans to meet their collective needs. In the view of religion, investment is a Shari'ah obligation whose stakes are reward and sin. Rewarded ukhrawi even worldly prosperity if obeyed and sinful if neglected. Djalaluddin (2014: 137)

In addition, Allah Swt. also says in the Qur'an in Surah Al-Isra'/ 17: 29 which reads:

وَلَا تَجْعَلْ يَدَكَ مَغْلُولَةً إِلَىٰ عُنُقِكَ وَلَا تَبْسُطْهَا كُلَّ الْبَسْطِ فَتَقْعُدَ مَلُومًا مَحْسُورًا

Meaning: "And do not let your hands be tied around your necks and do not stretch them out too much, so that you will be disgraced and regretful." (QS. Al-Isra'/17:29).

Based on the interpretation of jalalayn QS. Al-Isra' verse 29 means (And do not make your hands shackled to your necks) meaning do not hold them back from spending hard; meaning stingy (and do not stretch them out) in spending your wealth (outrageously, so you become disgraced) this sense of disgrace is addressed to people who are stingy (and regret) your wealth is exhausted and you have nothing left because of it; this sense is addressed to people who are too excessive in spending their wealth. Based on this verse and Islamic investment norms, wealth belongs to Allah, while human ownership of wealth is istikhlaf, where Allah entrusts the trust of wealth to humans to be utilized and managed as well as possible based on sharia rules and norms. If we relate it to the value of the company, of course we can understand that each company is encouraged to continue to improve the capabilities and potential of the

company.

2.5.2 Leverage in Islamic Perspective

Islam encourages its people to help each other, work together in terms of virtue and piety. As the basis for the law of debt and credit can be found in the Qur'an or the provisions of the sunnah of the Apostle. In the provisions of the Qur'an can be based on the recommendation of Allah SWT in Surah Al-Maidah verse 2 which reads:

وَتَ اَاوَنُوا عَلَى الْبِرِّ وَالتَّ قْوَىٰ وَلَ ۖ تَ اَاوَنُوا عَلَى الْ ۡ ِثْمِ وَالْأُدْوَانِ

Meaning: "...And help each other in (doing) virtue and piety, and do not help each other in sin and transgression..." (QS. Al-Maidah / 5: 2)

And among helping in a good way is through debt and credit, this is based on Surah Al-Baqarah verse 282 which reads:

يَا أَيُّ هُ ۖ ا الَّذِينَ آمَهُوا إِذَا تَدَايَ هْتُمْ بِدَيْ ن إِلَىٰ أَمَ ل مُسَمّى فَاكْتُبُوهُ وَلْ كْتُبْ بَ هَكُمْ كَاتِبٌ بِالْاَدْلِ

Meaning: "Oh, you who believe, when you do business not in cash for a fixed time, write it down. And let a writer among you write it down correctly." (QS. Al-Baqarah, 2: 282)

From the verse, it can be seen that there is no prohibition for debt and credit, in fact, giving debt is highly recommended. This is because it can help someone from the difficulties faced in society. While the law of giving debts is sunnah, but it will become obligatory if you give debts to people who are neglected or people who are very desperate.

Because in principle, everyone needs other people to fulfill their lives.

2.5.3 Profitability in Islamic Perspective

Allah says in the Qur'an in Surah Al Dzariyat/ 51:19 which reads:

وَفِي أَمْوَالِهِمْ حَقٌّ لِلسَّائِلِ وَالْمَحْرُومِ

Meaning: "And in their wealth there is a right for the poor who ask and the poor who have no share." (QS. Al Dzariyat/ 51:19)

According to tafsir jalalayn QS. Al Dzariyat verse 19, (And in their property there is a right for the needy who ask and the poor who do not ask) because he keeps himself from doing so. In addition, Allah Swt. said in the Qur'an in Surah Al Baqarah / 2: 267 which reads :

يَا أَيُّهَا الَّذِينَ آمَنُوا أَنْفِقُوا مِنْ طَيِّبَاتِ مَا كَسَبْتُمْ وَمِمَّا أَخْرَجْنَا لَكُمْ مِنَ الْأَرْضِ ۖ وَلَا تَيَمَّمُوا الْخَبِيثَ مِنْهُ تُنْفِقُونَ وَلَسْتُمْ بِآخِذِيهِ إِلَّا أَنْ تُغْمِضُوا فِيهِ ۚ وَاعْلَمُوا أَنَّ اللَّهَ غَنِيٌّ حَمِيدٌ

Meaning: " Oh you who believe, spend (in the cause of Allah) part of what you have earned and some of what we will bring out from the soil for you. And do not chose what is harmful, and do not spend it until you are forced to. And realize that Allah is All-Rich and All-Praised." (QS Al Baqarah, 2: 267)

Based on Jalalyn's interpretation of QS Al Baqarah verse 267 means (Oh you who believe, spend), meaning pay zakat (some of the good) from (the results of your efforts) in the form of property (and some) of the good from (what We bring out of the earth for you) in the

form of grains and fruits (and do not deliberately) take (the ugly) or bad (from it), meaning from the mentioned, (and do not deliberately) take (the bad) or ugly (from it), meaning from the mentioned ones, then (you give it out for zakaah) being the 'thing' of the dhamir found in 'tayammamu' (while you yourself do not want to take it), meaning the ugly one, if it were a right that should be given to you (except by closing your eyes to it), meaning pretending not to know or not seeing its ugliness, then how would you dare to give it to fulfill the right of Allah! (And know that Allah is All-Rich) so that He does not need your maintenance (again All-Praised) in every condition and situation.

In the rules and norms of Islamic investment stated by Munir and Djalaluddin (2014: 145), trying to get profit and profit fairly is fine if an investor strives to get maximum profit, because indeed the purpose of investing is to develop the principal capital. However, the desired profit should be framed by the word "fair," or what is termed fair profit or just profit. This fair profit includes all parties involved in the investment transaction, including profits for sellers and buyers and profits for investors and consumers. It is not burdensome for consumers and does not harm producers. In contrast to capitalism, Wiston (1966) said that the fulfillment of desires by obtaining maximum profit is the main strategy for capitalist companies.

In addition, the increase in wealth must be directly proportional to the increase in inflation. The main purpose of investment is not only to

increase wealth but also to increase social giving. Investment is not merely economic but also social, as an affirmation of the social function of wealth. Djalaluddin (2014: 146)

CHAPTER III
RESEARCH METHOD

3.1 Type and Approach of Research

This research employs the associative approach methodology. The research methodology employed is quantitative research, characterized by its fundamental nature and encompassing the collection and analysis of quantitative data, which is subsequently validated by statistical techniques.

3.2 Location

This research was conducted on Construction & Real Estate Sector Companies in developing countries of eastern Europe, precisely those that have been and are still listed on the Warsaw Stock Exchange (GPW) for Poland and the Bucharest Stock Exchange (BVB) for Romania.

3.3 Population and Sample

The study's population comprises all construction and real estate enterprises, which are noted on both the Warsaw Stock Exchange and the Bucharest Stock Exchange. A targeted sampling method was utilized to gather samples from a total of 44 firms.

To obtain the requisite data for this investigation, the authors utilized the data made accessible on the authorized websites of the Warsaw Stock Exchange, as published by the company (www.gpw.pl) and the Bucharest Stock Exchange (www.bvb.ro), in addition to the following sources: Employing data documenting methodologies. Corporate annual report. The study utilized quantitative data derived from secondary sources.

3.4 Sampling Technique

This research uses non probability sampling techniques. The sample approach used in this research is the purposive sampling technique, which is a non-probability sampling method. As stated by Sugiyono (2016: 85) purposive sampling requires researchers to have certain considerations in determining the sample. Researchers use this technique because each study with the variables used requires certain criteria or characteristics in sampling. In this study, a total sample of 44 company data was obtained that met the sample criteria during 2018 to 2022. The sample criteria in this study are as follows:

1. Polish Construction & Real Estate Sector companies listed on the Warsaw Stock Exchange (GPW) in 2018-2022.
2. Roamia Construction & Real Estate Sector Companies listed on the Bucharest Stock Exchange (BVB) in 2018-2022.
3. Polish Construction & Real Estate Sector companies that regularly report financial statements on the Warsaw Stock Exchange (GPW) in 2018-2022.
4. Romanian Construction & Real Estate Sector companies that report financial statements regularly on the Bucharest Stock Exchange (BVB) in 2018-2022.
5. Polish and Romanian Construction & Real Estate Sector companies that did not experience losses during the period 2018-2022.

Table 3.1 Criteria of Sampling

Polish		
No	**Criteria of Sampling**	**Amount**
1	Polish Construction Sector companies listed on the Warsaw Stock Exchange (GPW) in 2018-2022.	43
2	Polish Real Estate Sector companies listed on the Warsaw Stock Exchange (GPW) in 2018-2022.	28
3	Polish Construction Sector companies with losses in 2018-2022.	(27)
4	Polish real estate sector companies with losses in 2018–2022.	(18)
	Total Research Sample	26

Romanian		
No	**Criteria of Sampling**	**Amount**
1	Romanian Construction Sector companies listed on the Bucharest Stock Exchange (BVB) in 2018-2022.	25
2	Romanian Real Estate Sector companies listed on the Bucharest Stock Exchange (BVB) in 2018-2022.v	21
3	Romanian Construction Sector companies that incurred losses in 2018-2022.	(15)
4	Romanian Real Estate Sector companies that incurred losses in 2018-2022.	(13)
	Total Research Sample	18

Out of the whole research population of 117 organizations, 44 companies have been selected as samples for this study based on the criteria established by the researcher. The companies that became research samples are as follows:

Table 3.2 Research Samples

No.	**Negara**	**Sektor**	**Kode/Nama Perusahaan**	**Nama**
1	Poland	Construction	BDX	Budimex SA
2			DCR	Decora SA
3			DEK	Dekpol S
4			SKA	Sniezka SA
5			INK	Instal Kraków Sa
6			IZO	Izolacja Jarocin Sa

7			LTX	Lentex SA
8			MCR	Mercor SA
9			MFO	MFO Sa
10			MRB	Mirbud SA
11			NVA	P.A. Nova Sa
12			PJP	PJP Makrum SA
13			PBX	Pekabex SA
14			ULM	Ulma Construccion Polska Sa
15			UNI	Unibep SA
16			RPC	Zaklady Magnezytowe Ropczyce SA
17		Real Estate	DOM	Dom Development Sa
18			AAT	Atal SA
19			ECH	Echo Investment Sa
20			EDI	ED Invest Sa
21			EKP	Elkop SE
22			INP	Inpro SA
23			LKD	Lokum Deweloper Sa
24			MVP	Marvipol Development Sa
25			MLG	MLP Group Sa
26			RNK	Rank Progress Sa
27	Romania	Construction	AUXI	Atm - Construct Sa Ploiesti
28			CHIA	Constructii Hidrotehnice Sa Iasi
29			COKJ	Concivia Sa Braila
30			CONK	Concas Sa Buzau
31			CORO	Constructii Feroviare Sa Galati
32			CPLB	Constructii Complexe Sa Buzau
33			ELJA	Electromontaj Carpati Sa Sibiu
34			IMP	Impact Developer & Contractor S.A.
35			SCBC	Scut Sa Bacau
36			SELC	Selca Sa Pitesti
37		Real Estate	ARCU	Sifi Cluj Retail Sa Bucuresti
38			CICO	Ci-Co Sa
39			COCR	Cocor Sa Bucuresti
40			COKG	Comalex Sa Alexandria
41			GAOY	Gastronom Sa Buzau
42			NTEX	Sifi CJ Storage Sa

43			PRBU	Practic Sa Bucuresti
44			UTGR	Utilaj Greu Sa Murfatlar

Source : Data processed by researchers, 2024

3.5 Data and Type of Data

The data used is the financial statements of the Construction & Real Estate Sector Companies for the period 2018-2022 based on data obtained from the official website of the Warsaw Stock Exchange (www.gpw.pl) and the Bucharest Stock Exchange (www.bvb.ro).

Financial reports as one of the secondary data are used to determine leverage with indicators of Debt to Asset Ratio (DAR) and Debt to Equity Ratio (DER), profitability with indicators of Return on Asset (ROA) and Return on Equity (ROE), and firm value with indicators of Price to Book Value (PBV) and Tobin's Q value.

3.6 Data Sampling Technique

1. Library Research

   At this stage, the researcher seeks to obtain as much data as can be expected to be filled in as hypothetical premises and references in handling information, by researching, examining, exploring and surveying writings as books, diaries, papers, and past exams. identified with the problem under study. The creator also endeavors to collect, study, and examine optional information related to the article to be viewed by the researcher.

2. Internet Research (Online Research)

   At this step, the researcher seeks to acquire further knowledge and data that are distinct from the goals established during the first investigation.

The data collected consists of secondary data extracted from the financial statements of Construction & Real Estate Sector Companies in the emerging nations of the Eastern European Union, namely Poland and Romania. These companies are listed on the Warsaw Stock Exchange (GPW) and the Bucharest Stock Exchange (BVB) during the period from 2018 to 2022.

3.7 Variable Operational Definition

3.7.1 Dependent Variable (Y)

The dependent variable in this study is firm value, as measured by PBV and Tobins-q. PBV (price book value) is the proportion of value action given by the money market to the company's administration and association as a growing company (Brigham and Houston, 2006), and Tobins-q or q-theory is the ratio of capital market value to replacement cost and measures all investment opportunities of the company.

$$PBV = \frac{\text{Harga pasar per saham}}{\text{Nilai Buku Saham}}$$

$$Q = \frac{\text{MVS+Debt}}{\text{Total Asset}}$$

MVS, or market value of equity, is obtained from the year-end closing stock price multiplied by the number of shares outstanding at the end of the year.

Debt is obtained from:

AVCL : Current liabilities of the company

AVCA : Current assets

AVLTD: Long-term liabilities

3.7.2 Independent Variable (X)

The independent variable in this study is leverage, which is projected by the values of DAR and DER. The debt-to ratio shows how many assets are paid for by debt or how much impact debt has on handling assets. The higher the DAR, the more difficult it is for the company to borrow funds because it is feared that it will not be able to pay off its debts from its assets (Kasmir, 2019) and the debt-to ratio (DER), which is a proportion that describes the synthesis of capital used as a source of financing. "Companies whose resources are adequate to be used as initial collateral will generally use a lot of debt.". (Brigham and Houston, 2011: 188). Both can be obtained through the formula

:

$$\textbf{\textit{Debt to Asset Ratio}} = \frac{\text{Total Utang}}{\text{Total Aset}} \textbf{\textit{x}}\ \textbf{100}\%$$

$$\textbf{\textit{Debt to}}\ \text{Equity}\ \textbf{\textit{Ratio}} = \frac{\text{Total Utang}}{\text{Total Equity}} \textbf{\textit{x}}\ \textbf{100}\%$$

3.7.2 Intervening Variable (Z)

Profitability is the proportion used to assess the company's ability to seek profit (Kasmir, 2014: 196). According to Naim (1998) and Analisa (2011), in measuring profitability, return on assets (ROA) and return on equity (ROE) are used. Both can be obtained through the formula:

$$ROA = \frac{\text{Earning after taxes}}{\text{Total Assets}}\ x\ 100\%$$

$$ROE = \frac{\text{Earning after taxes}}{\text{Total Equity}} \; x \; 100\%$$

The following is the operational definition of variables in the research table:

Table 3.3 Variable Operational List

No.	Variable	Definition	Indicator	Source
1	PBV	Determines the worth that stock marketsput on management the firm as a growing enterprise.	Market price per share, Book value per share	(Brigham dan Houston, 2006)
2	Tobin's Q	ratio of capital market value to replacement cost and measures all investment opportunities of the company	Total Assets, Current Liabilities of the Company, Current Assets, Long-term liabilities, Final closing stock price, Number of shares outstanding at the end of the year	Nicholas Kaldor 1966.
3	DAR	DAR is calculated by dividing total debt by total assets.	Total debt, Total assets	Brigham & Houston, 106:1999
4	DER	DER is calculated by dividing total debt by total equity.	Total debt, Total capital	Brigham & Houston, 106:1999
5	ROA	Demonstrates the company's capacity to employ all of its assets to make profit after taxes.	Net income, Total assets	(Sudana, 2009: 26).
6	ROE	Demonstrates the company's capacity to create profit after tax using its own capital.	Net income, Total capital	(Sudana, 2009: 26)

3.8 Data Analysis

The research employed path analysis as the data analysis approach and the SmartPLS version 3.0 program as the instrument. A hypothesis is a provisional inference requiring empirical verification to establish validity.

The criterion for accepting or rejecting a hypothesis in this research is to evaluate the T statistic or T table's statistical significance. The t-statistic value can be evaluated against the critical threshold derived from the t-table.

3.8.1 Descriptive Analysis

The purpose of the descriptive statistics analysis employed in this research is to present or explain the parameters in research through frequency tables that display The values of least, highest, average, and standard deviations.

3.8.2 Path Analysis

This research aimed to examine the impact of the association between the independent and dependent variables and to assess if profitability (measured by ROA and ROE) may act as a mediator between Leverage (measured by DAR and DER) and company value (measured by PBV and Tobin's Q). Path analysis is a tool for determining the impact of variable interventions or mediating factors as shown in the conceptual framework. Path analysis is a statistical technique that use multiple linear regression analysis to determine the causal relationship between variables in research that has been previously hypothesized by theory (Ghozali 2009). The link between variables is then represented as a route diagram, which may be used to compute the direct and indirect impacts of exogenous or independent variables on endogenous or dependent variables. The influence will be represented as a path coefficient.

3.8.2.1 Outer Model for Measurement

The measuring model refers to a framework or system used to quantify or assess certain aspects or variables of interest to assess the accuracy and consistency of the model. Evaluating the external model included examining the convergent and discriminant validity of the latent concept indicators and the composite reliability of the indicator blocks.

3.8.2.2 Convergent Validity

Suggests the extent to which several Indicators of the identical concept are positively related to each other. The assessment of convergent validity involved the analysis of loading factor values. In confirmatory studies, loading factor values must exceed 0.7; however, in exploratory investigations, loading factor values within the range of 0.6 to 0.7 are deemed suitable. Nevertheless, Latan and Ghozali (2012, p.78) state that loading factor values ranging from 0.5 to 0.6 are still deemed satisfactory in initial research endeavors for constructing measurement scales.

3.8.2.3 Distinctiveness of Measures

In order to assess discriminant validity, we performed a comparison between the square root of the Average Variance Extracted (AVE) for each construct and the correlation values derived from the components in the model. The citation (Fornell & Larcker, 1981) If the square root of the average variance extracted (AVE) for each construct is greater than the correlation between latent variables

in the model, then the model exhibits a strong discriminant. The minimum acceptable AVE value must exceed 0.5. This score indicates that over 50 percent of the variability in the indicator can be accounted for (Chin & Dibbern, 2010).

3.8.2.4 Composite Reliability

The level of consistency and precision in quantifying an element or parameter using multiple indicators or items. The assessment of the reliability of constructs with reflected indicators was conducted according to the findings of composite reliability. The frequently accepted guideline for evaluating construct reliability is that the composite reliability value for confirmatory studies should exceed 0.7 and fall within the range of 0.6 to 0.7. Suitable for conducting investigatory research.

3.8.2.5 Structural Model (Inner Model)

The internal model, also known as the structural equation model, was evaluated by examining the R-squared percentage for each exogenous latent factor used as an indicator in the framework. A model that has an R-squared value of 0.75 is considered strong, while a model with an R-squared value of 0.50 is considered intermediate, and a model with an R-squared value of 0.25 is considered weak. The R-squared value in Partial Least Squares (PLS) reflects the extent to which the model explains the variations in the construct.

CHAPTER IV
RESULT AND DISCUSSION

4.1 Result

The authors analyze two sectors in two emerging eastern European countries, Poland and Romania, together (Construction and real estate industries in Poland and Romania) and separately (construction sector in Poland, real estate sector in Poland, construction sector in Romania and real estate sector in Romania).

4.1.1 Descriptive Statistic

The findings of the descriptive statistical assessment appear in Table 2 below.

Table 4.1 Descriptive Statistic Outcomes

Variables	N	Minimum	Maximum	Mean	SD
Construction and Real Estate sectors in Poland					
Tobin's Q	130	0.094	2620.440	294.656	426.873
PBV	130	0.072	6612.227	649.058	1031.064
ROA	130	0.001	0.311	0.063	0.048
ROE	130	0.001	0.531	0.120	0.093
DAR	130	0.179	1604.910	18.138	139.962
DER	130	0.019	9.165	0.983	1.337
Construction and Real Estate sectors in Romania					
Tobin's Q	90	0.016	1201.140	168.303	271.768
PBV	90	0.171	5579.684	562.475	864.824
ROA	90	0.002	0.248	0.071	0.056
ROE	90	0.000	0.725	0.129	0.114
DAR	90	0.239	66.127	5.867	8.617
DER	90	0.001	4.685	0.850	0.937
Construction sector in Poland					
Tobin's Q	80	0.160	2417.946	449.034	431.805
PBV	80	257.727	6612.227	1244.096	1218.805
ROA	80	0.006	0.239	0.068	0.043
ROE	80	0.016	0.725	0.150	0.109
DAR	80	1.143	10.163	2.632	1.740
DER	80	0.109	6.977	1.430	1.379
Real Estate sector in Poland					
Tobin's Q	50	0.707	2620.440	348.983	375.114
PBV	50	28.794	4150.024	707.412	650.017

ROA	50	0.003	0.127	0.065	0.032
ROE	50	0.005	0.290	0.139	0.075
DAR	50	0.179	4.904	0.899	0.845
DER	50	0.218	9.615	1.314	1.316
Construction sector in Romania					
Tobin's Q	50	0.094	1.009	0.465	0.196
PBV	50	0.072	1.311	0.356	0.220
ROA	50	0.001	0.240	0.057	0.060
ROE	50	0.000	0.531	0.098	0.120
DAR	50	2.116	1604.910	39.261	223.742
DER	50	0.001	0.896	0.330	0.261
Real Estate sector in Romania					
Tobin's Q	40	0.016	7.588	1.438	1.635
PBV	40	0.224	13.661	2.105	2.838
ROA	40	0.002	0.311	0.079	0.068
ROE	40	0.004	0.252	0.085	0.070
DAR	40	1.910	66.127	16.687	13.271
DER	40	0.015	1.099	0.193	0.277

The descriptive statistics table above displays six results regarding Poland's building and real estate industry. Notably, the average amount for Tobin's Q is 294.656. The minimal value was 0.094; the greatest amount is 2620.44, while the standard deviation is 426.873. The average PBV is 649.058, which ranges from a low of 0.072 to a highest of 6612.227, with a standard deviation of 1031.064. The mean ROA is 0.063, with a range of values from 0.001 to 0.311 and a standard deviation of 0.048.

However, the average return on equity (ROE) is 0.120, ranging from 0.001 to 0.531, and has a standard deviation of 0.093. The average DAR value is 18.138, with a minimum value of 0.179 and a maximum value of 1604.910. The value of the standard deviation is 139.962. The average value of DER is 0.983, with a minimum value of 0.019, a maximum value of 9.165, and a standard deviation of 1.337.

4.1.2 Data Interpretation

4.1.2.1 Outer Model for Measurement

The measuring model refers to a framework or system used to quantify or assess certain aspects or variables of interest to assess the accuracy and consistency of the model. Reviewing the external model involved evaluating the accuracy and reliability of the indicators used to measure the latent construct.

4.1.2.2 Convergent Validity

The assessment of convergent validity involved the analysis of loading factor values.

Table 4.2 Loading Factors Outcome

Variables	Firm Value	Leverage	Profitability
Construction and Real Estate sectors in Poland			
Tobin's Q	0.893		
PBV	0.980		
ROA			0.592
ROE			0.999
DAR		-0.198	
DER		0.991	
Construction and Real Estate sectors in Romania			
Tobin's Q	0.759		
PBV	0.950		
ROA			0.761
ROE			0.999
DAR		-0.678	
DER		0.951	
Construction sector in Poland			
Tobin's Q	0.740		
PBV	0.951		
ROA			0.741
ROE			0.983
DAR		-0.726	
DER		0.975	
Real Estate sectors in Poland			
Tobin's Q	0.993		
PBV	0.974		
ROA			0.980
ROE			0.943
DAR		0.973	
DER		0.807	
Construction sector in Romania			

Tobin’s Q	0.981		
PBV	0.949		
ROA			0.778
ROE			0.990
DAR		-0.298	
DER		0.967	
Real Estate sectors in Romania			
Tobin’s Q	0.867		
PBV	0.930		
ROA			0.983
ROE			0.987
DAR		-0.871	
DER		0.889	

According to the data processing results by Smart PLS 3.0 shown in Table 3 above, the load factor results showed values exceeding 0.5. Consequently, the model does not omit indications of leverage, profitability, and firm value factors specifically for Real Estate firms in Poland. Specific indicators characterize the variables. The leverage variable is made of two indicators, namely DAR and DER (Shaferiet al., 2020; Lestari, 2021). The profitability variable is calculated by two indicators, namely Return on Assets (ROA) and Return on Equity (ROE). (Adhitya et al., 2016; Pramana et al., 2016). Furthermore, the variable that represents the value of the company consists of two indicators: PBV and Tobin's Q (Hadiyanti, 2016).

4.1.2.3 Distinctiveness of Measures

In order to assess discriminant validity, we performed a comparison between the square root of the average variance extracted (AVE) for each construct and the correlation values among the components in the model. The citation (Fornell & Larcker, 1981)

If the square root of the average variance extracted (AVE) for each construct is greater than the correlation between latent variables in the model, then the model exhibits good discriminant validity. The minimum acceptable AVE value must exceed 0.5. This score indicates that over 50 percent of the variability in the indicator can be accounted for (Chin & Dibbern, 2010). The outcomes of the discriminant validity assessments appear in Tables 4 and 5 below.

Table 4.3 AVE and square root of AVE outcome

Variables	**AVE**	**Square Root AVE**
Construction and Real Estate sectors in Poland		
Firm Value	0.879	0.938
Leverage	0.511	0.715
Profitability	0.675	0.882
Construction and Real Estate sectors in Romania		
Firm Value	0.739	0.860
Leverage	0.682	0.826
Profitability	0.789	0.888
Construction sectors in Poland		
Firm Value	0.726	0.852
Leverage	0.739	0.860
Profitability	0.758	0.871
Real Estate sectors in Poland		
Firm Value	0.967	0.983
Leverage	0.799	0.894
Profitability	0.926	0.962
Construction sectors in Romania		
Firm Value	0.931	0.965
Leverage	0.512	0.716
Profitability	0.793	0.890
Real Estate sectors in Romania		
Firm Value	0.809	0.899
Leverage	0.775	0.880
Profitability	0.971	0.985

From Table 3 above, we can see that the AVE value for each configuration is higher than 0.5. On another hand, the square

root AVE values of each structure in the Polish construction sector are, for example, 0.852, 0.860, and 0.871. In addition, the results of the square root AVE values and the correlations between the constructs in Table 5 suggest that:

Table 4.4 Laten variable correlation outcome

Variables	**Firm Value**	**Leverage**	**Profitability**
Construction and Real Estate sectors in Poland			
Firm Value	1.000	0.439	0.413
Leverage	0.439	1.000	0.296
Profitability	0.413	0.296	1.000
Construction and Real Estate sectors in Romania			
FirmValue	1.000	0.593	0.551
Leverage	0.593	1.000	0.442
Profitability	0.551	0.442	1.000
Construction sector in Poland			
Firm Value	1.000	0.379	0.660
Leverage	0.379	1.000	0.352
Profitability	0.660	0.352	1.000
Real Estate sector in Poland			
Firm Value	1.000	-0.128	-0.031
Leverage	-0.128	1.000	-0.231
Profitability	-0.031	-0.231	1.000
Construction sector in Romania			
Firm Value	1.000	0.626	0.215
Leverage	0.626	1.000	0.393
Profitability	0.215	0.393	1.000
Real Estate sector in Romania			
Firm Value	1.000	0.318	0.415
Leverage	0.318	1.000	-0.242
Profitability	0.415	-0.242	1.000

The square root of the average value (0.852) in the Firm Value variable exceeds the correlation between the Firm Value variable and the Leverage variable (0.379), as well as the Profitability variable (0.660). The square root of the mean value in the Leverage variable (0.860) is greater than the correlation between

the Leverage variable and the Firm Value (0.379) and Profitability (0.352) variables. The square root of the average value (0.871) in the Profitability variable is greater than the correlation values between Profitability and the Firm Value (0.660) and Leverage (0.352) variables. The aforementioned data indicate that each idea has a high level of discriminant validity. This is supported by the fact that the Average Variance Extracted (AVE) value for each construct is more than 0.5, and the square root of the AVE value is higher than the correlation between the constructs in the model.

4.1.2.4 Composite Reliability

Concept validity refers to the extent to which several indicators or items accurately and consistently measure a certain concept or variable. The assessment of the reliability of constructs with reflected indicators was conducted according to the findings of composite reliability. The frequently accepted guideline for evaluating construct reliability is that the composite reliability value for confirmatory studies should exceed 0.7 and fall within the range of 0.6 to 0.7. Suitable for conducting investigatory research. The outcomes for composite dependability are displayed in Table 6 below

Table 4.5 Composite reliability outcome

Variables	**Composite reliability**
Construction and Real Estate sectors in Poland	
Firm Value	0.936
Leverage	0.391
Profitability	0.796
Construction and Real Estate sectors in Romania	
Firm Value	0.848
Leverage	0.105

Profitability	0.880
Construction sectors in Poland	
Firm Value	0.839
Leverage	0.106
Profitability	0.860
Real Estate sectors in Poland	
Firm Value	0.983
Leverage	0.894
Profitability	0.962
Construction sectors in Romania	
Firm Value	0.964
Leverage	0.315
Profitability	0.883
Real Estate sectors in Romania	
Firm Value	0.894
Leverage	0.001
Profitability	0.985

According to the information provided in Table 6, the composite dependability of each construct is greater than 0.7; as a whole, there are only Real Estate sectors in Poland. This indicates that all study constructs are dependable.

4.1.2.5 Structural Model (Inner Model)

The internal model, also known as the structural equation model, was evaluated by examining the R-squared percentage for each exogenous latent factor used as an indicator in the framework. A model with an R-squared value of 0.75 is considered strong, whereas a model with an R-squared value of 0.50 is considered intermediate, and a model with an R-squared value of 0.25 is considered weak. The R-squared value in Partial Least Squares (PLS) indicates the proportion of variations in the construct

explained by the model. The R-Square findings obtained from using Smart PLS 3.0 are presented in Table 7.

Table 4.6 R-Square outcome

Variables	**R square**
Construction and Real Estate sectors in Poland	
Firm Value	0.281
Profitability	0.087
Construction and Real Estate sectors in Romania	
Firm Value	0.455
Profitability	0.196
Construction sectors in Poland	
Firm Value	0.461
Profitability	0.124
Real Estate sectors in Poland	
Firm Value	0.020
Profitability	0.053
Construction sectors in Romania	
Firm Value	0.393
Profitability	0.154
Real Estate sectors in Romania	
Firm Value	0.359
Profitability	0.059

According to Table 6 above, The Construction and Real Estate enterprises in Romania had the highest R-Square value of 0.455 for the Firm Value variable. This outcome indicates that 45.5 percent of the Firm Value variable may be ascribed to the impact of profitability variables, while the remaining 54.5 percent is attributable to other variables. In addition, the profitability variable achieved an R-squared value of 0.196. The findings indicate that 19.6 percent of the profitability variable may be attributed to the influence of the leverage variable, whilst the remaining 80.4 percent is influenced by other variables unrelated to the firms value.

The model's suitability in this research is contingent upon its substantiation by empirical evidence. In PLS analysis, the fitness of a structural model is commonly evaluated by calculating the predicted value association (Q2), which is derived from the R2 value of each endogenous variable. The estimated Q2 relevance value is calculated as 1 - (1 - 0.196) (1 - 0.455) = 0.56182, equivalent to 56.18 percent. To clarify, the model accounts for 56.18 percent of the explanation for Profitability and Firm Value, with the remaining 43.82 percent attributed to external variables not included in the model. According to Hair et al. (2011), a Q2 value of more than 50 percent demonstrates that the model has a satisfactory fit and is appropriate for additional study.

The hypothesis is tested using the values obtained from the output of the path coefficients, specifically the mean, standard deviation, and T-value. The T-statistic results can be utilized to ascertain The assessment of whether the hypothesis is accepted or rejected. The limits for rejecting or accepting the proposed hypothesis are specified in the t-table (significance level = 5 percent). If t-statistic > t-table (one-sided), The alternative hypothesis (Ha) is considered valid, and the assumption of nullity (H0) is denied. Yet, if the t-statistic is less than H0, then H0 is denied. For a t table (one-sided), The null assumption (H0) is affirmed, while the alternative hypothesis (Ha) is denied. The T-

statistic results can be found in the following table, along with the path coefficients (mean, STDEV, T-value):

The outcomes of depicting a comprehensive structural equation model in data processing are displayed below in Figures 1.1 to 1.6.

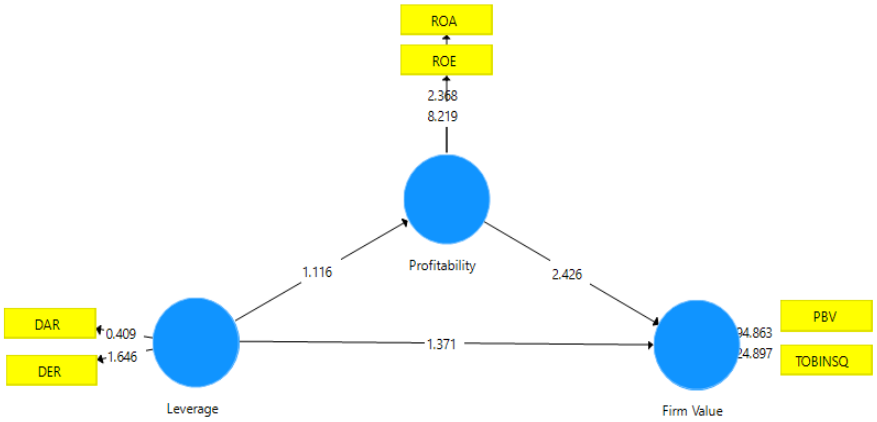


Figure 4.1 Structural Equation Model (Construction and Real Estate Firms in Poland)

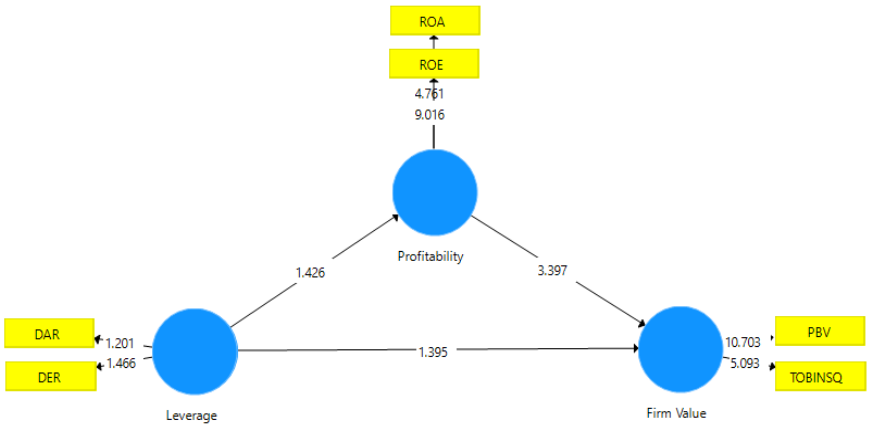


Figure 4.2 Structural Equation Model (Construction and Real Estate Firms in Romania)

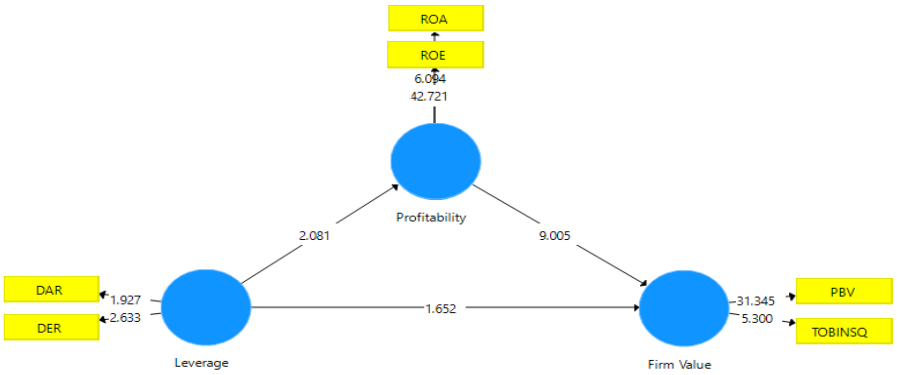


Figure 4.3 Structural Equation Model (Construction Firms in Poland)

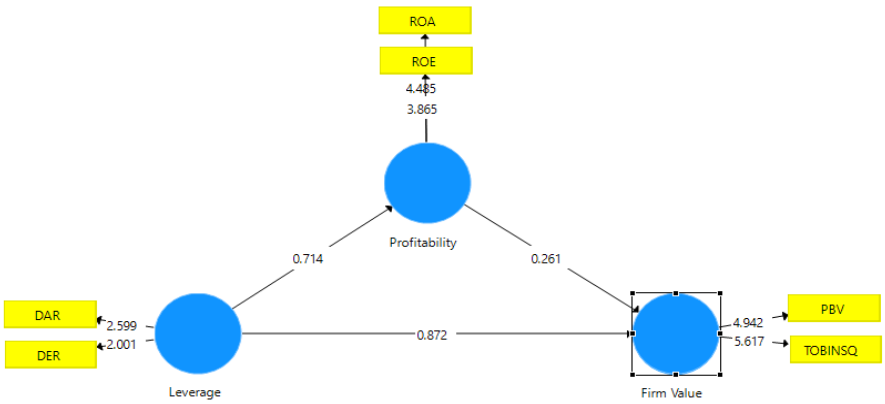


Figure 4.4 Structural Equation Model (Real Estate Firms In Poland)

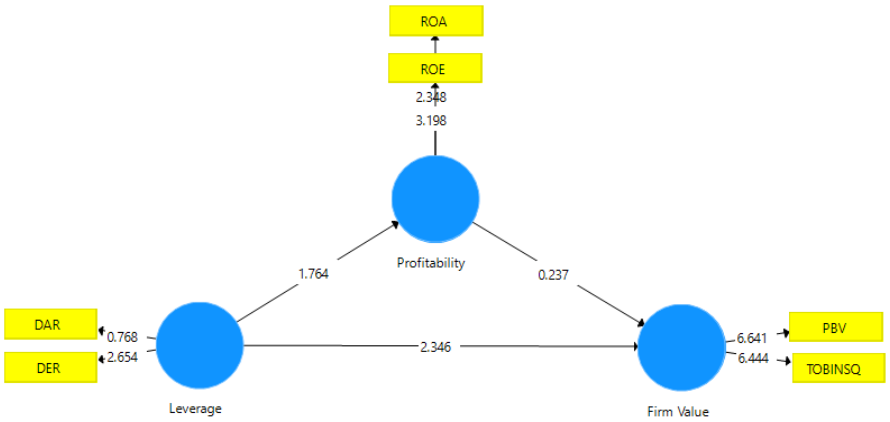


Figure 4.5 Structural Equation Model (Construction Firms in Romania)

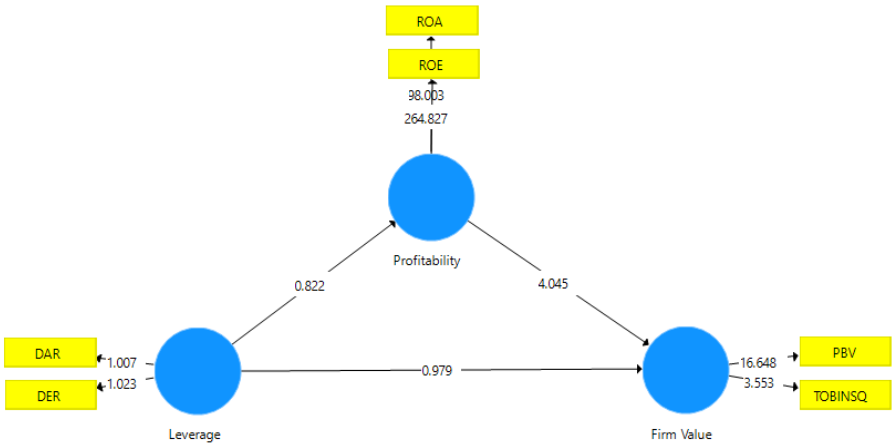


Figure 4.6 Structural Equation Model (Real Estate Firms in Romania)

Table 4.7 Path coefficients outcomes

Variables	Original sample (O)	Sample mean (M)	SD (STD EV)	T statistics (|O/STD EV|)	T table	P Values
Construction and Real Estate Companies in Poland						
Leverage -> Firm Value	0.348	0.276	0.253	1.371	1.71	0.085
Leverage -> Profitability	0.296	0.238	0.265	1.116	1.71	0.132
Profitability ->Firm Value	0.310	0.294	0.128	2.426	1.71	0.008
Construction and Real Estate Companies in Roman						
Leverage -> Firm Value	0.435	0.314	0.312	1.395	1.75	0.082
Leverage -> Profitability	0.442	0.375	0.310	1.426	1.75	0.077
Profitability ->Firm Value	0.358	0.333	0.105	3.397	1.75	0.000
Construction Companies in Poland						
Leverage -	0.167	0.148	0.101	1.652	1.77	0.050

> Firm Value						
Leverage -> Profitability	0.352	0.338	0.169	2.081	1.77	0.019
Profitability ->Firm Value	0.601	0.623	0.067	9.005	1.77	0.000
Real Estate Companies in Poland						
Leverage -> Firm Value	-0.143	-0.138	0.164	0.872	1.89	0.192
Leverage -> Profitability	-0.231	-0.144	0.323	0.714	1.89	0.238
Profitability ->Firm Value	-0.064	0.019	0.245	0.261	1.89	0.397
Construction Companies in Roman						
Leverage -> Firm Value	0.640	0.578	0.273	2.346	1.89	0.010
Leverage -> Profitability	0.393	0.347	0.223	1.764	1.89	0.019
Profitability ->Firm Value	-0.036	-0.022	0.152	0.237	1.89	0.406
Real Estate Companies in Roman						
Leverage -> Firm Value	0.445	0.075	0.455	0.979	2.01	0.164
Leverage -> Profitability	-0.242	0.053	0.295	0.822	2.01	0.206
Profitability ->Firm Value	0.523	0.559	0.129	4.045	2.01	0.000

Table 8 indicates that the t statistic value for the influence of leverage on profitability is bigger than the critical t value at the given significance level of 5 percent; there is only one category, it is Construction Companies in Poland, 2.081. Therefore, from the criteria for accepting or rejecting the aforementioned hypothesis, the findings of this research confirm the initial notion that leverage substantially influences profitability.

Furthermore, the t statistic for the influence of leverage on firm value exceeds the critical value from the t table at the given significance level of 5 percent, which is only in one category. It is a Construction Company in Romania, 2.346. From the acceptance and rejection criteria outlined in the hypothesis, the research's result confirms that leverage considerably influences business value.

In addition, the t-statistics value for the impact of profitability on firm value surpasses the crucial t-value at the specified significance threshold of 5 percent. There are four categories: The number of construction and real estate companies in Poland is 2,426, whereas in Roman it is 3,397; Construction Companies in Poland, 9.005; Real Estate Companies in Roman, 4.045. Therefore, According to the hypothesis acceptance and rejection criteria mentioned above, the findings of this research confirm the third hypothesis that profitability significantly influences company value.

In addition, This study sought to investigate the impact of leverage on company value by analyzing its relationship with profitability. The results of his fourth hypothesis test using Smart PLS 3.0 are shown in Table 9 below.

Table 4.8 Testing Effect of Intervention

Varibles	Original Sample	Standard error	T statistics	T table	Conclusion
Construction and Real Estate Companies in Poland					
Leverage -> Profitability -> Firm Value	0.092	0.076	1.212	1.71	Rejected
Construction and Real Estate Companies in Roman					
Leverage -> Profitability -> Firm Value	0.159	0.105	1.504	1.75	Rejected
Construction Companies in Poland					
Leverage -> Profitability -> Firm Value	0.212	0.109	1.945	1.77	Accepted
Real Estate Companies in Poland					
Leverage -> Profitability -> Firm Value	0.015	0.084	0.176	1.89	Rejected
Construction Companies in Roman					
Leverage -> Profitability -> Firm Value	-0.014	0.066	0.215	1.89	Rejected
Real Estate Companies in Roman					
Leverage -> Profitability -> Firm Value	-0.127	0.170	0.744	2.01	Rejected

From the above calculation, we can see that the obtained calculated t-value exceeds the critical value from the t-table at a 5 percent significance level. There is only one category, 1.945 construction companies in Poland. This shows that intermediate parameters are important. Therefore, according to the hypothesis acceptance and rejection criteria mentioned above, the findings regarding this research confirm the fourth hypothesis that leverage has a considerable influence on firm value through profitability.

4.2 Discussions

4.2.1 The Influence of Leverage on Profitability

The acceptance of H1, which asserts that leverage substantially influences profitability, has been confirmed in Poland's construction sector. There is a negative link between leverage and profitability, indicating that increases in leverage result in corresponding changes in profitability. A negative correlation implies that more leverage results in decreased profitability. The results of this investigation support the results of an earlier study. (Chen et al., 2019) and (Grau & Reig 2021), researchers who investigated the influence of capital structure on profitability. The findings of this investigation suggest that managers should expect higher rates of return when using debt to finance business operations. On the other hand, in both sectors of Poland, both sectors of Romania, the Real Estate sector of Poland, the construction sector of Romania, and the real estate sector of Romania states are rejected. This correlation is positive, meaning that changes in

leverage do not cause changes in profitability. A positive direction means that higher leverage increases profitability. The results of this research support those of previous studies. (Bae et al., 2017) and (Pattitoni et al., 2014). The findings demonstrate a non-linear correlation between the capital structure and firms' achievement in industrialized nations.

Capital structure primarily concerns the source of funds obtained from either internal or external sources. Internal funding sources refer to the financial resources originating from the company's earnings. In the meantime, external funds could be raised by the creditors. The greater the percentage of debt in the capital structure, the greater the liability a company has to bear, as it has to pay installments and interest on the debt. The level of interest rates on borrowed capital reduces corporate profits and lowers corporate profitability. This finding is consistent with researchers who researched this topic (Abor, 2005); the findings indicate that LTDTA has a detrimental influence on Return on Equity

4.2.2 The Influence of Leverage on Firm Value

The outcome aligns with hypothesis H2, which posits that leverage exerts a substantial Affecting the worth of a corporation. The findings offer concrete proof that leverage uses a crucial role in determining the value of companies in the Polish construction industry. Just as a certified financial planner (CFP) would explain, the path coefficient reveals that leverage has a positive and statistically significant impact on the firm's value. Therefore, as debt levels increase in the capital structure, the corporation's overall value also goes up. This phenomenon arises due to the inverse relationship between

debt levels in the capital structure and tax liabilities, resulting in a perceived reduction in the amount of interest paid on the debt. This exerts a favorable influence on the stock price within the stock market, ultimately augmenting the company's overall worth. The findings of this research align with the financial decision theory put forward by (Modigliani & Miller, 1963). Using debt to finance a firm enhances its worth by lowering tax obligations and reducing interest payments on debt. This finding supports (Mangesti Rahayu et al., 2020) Discovered that capital structure exerts a favorable and substantial influence on the overall worth of a corporation. (Granzer et al., 2006) It was also discovered that the method of increasing capital enhances the worth of a company. (Cheng et al., 2010) Offered empirical evidence indicating that alterations in debt ratios can either positively or negatively affect the value of a company. Nevertheless, this research finds that leverage significantly does not influence the firm value in both sectors of Poland, both sectors of Romania, the Real Estate sector of Poland, the construction sector of Romania, and the real estate sector of Romania.

The findings of this investigation support the pecking order theory and indicate the existence of information asymmetry. The hierarchy of financial utilization within the capital system, i.e., earnings, debt, and new issues, must be maintained to avoid negative investor perceptions. Debt utilization in the capital structure is usually popular with investors because it has a beneficial influence on the stock price and ultimately increases the company's value. If a company issues stock to finance its operations,

investors will react negatively because existing shareholders will not view the stock issuance as a good thing. Issuing new shares in response to financial needs augments When there is an increase in the number of shares within a firm, it can cause the price of the shares to decrease and the overall value of each share to be diluted. As a result, this can lead to a decline in the stock price in the market.. Therefore, investors often have a positive perception of incorporating debt into the capital structure as that positively affects the rise in stock price, thus enhancing the company's value.

4.2.3 The influence of Profitability on Firm Value

Empirically, the findings show that firm profitability is a decisive factor influencing the valuation of a company in both sectors in Poland, in both sectors in Romania, in the construction sector in Poland, and the real estate sector in Romania. This result is consistent with H3's prediction that profitability significantly correlates with firm value. This finding also aligns with Nagano's research in 2003, which suggests that companies tend to prioritize internal metrics for enhancing corporate profitability rather than external measures for increasing shareholder value. Then, a study by Mardiyati et al. in 2012 confirmed that profitability has a positive impact on corporate value. The correlation between the factors related to firm profitability and firm value is positive, suggesting that these factors have a significant and positive impact on the value of the firm. This observation indicates that enhanced profitability has a direct impact on the value of companies in the manufacturing sector in Indonesia. Profitability is crucial

for a company's success as it directly impacts its value. It is determined by effective asset management and sales strategies.

Investors may utilize a company's profitability as a gauge of the company's future potential in order to make investment decisions (according to signaling theory). High profitability is indicative of exceptional efficiency. As the level of profitability rises, there is a corresponding growth in internal funds. The study's findings demonstrate that profitability, inside an empirical framework, serves as a variable that can be utilized to ascertain or forecast the worth of manufacturing companies in Indonesia.

4.2.4 The influence of Leverage on Firm Value through Profitability

This finding aligns with the prediction that profitability has a significant impact on the relationship between leverage and company value. This discovery offers concrete proof that the use of leverage has no impact on a company's value through profitability in various sectors of Poland and Romania. Contrary, Leverage influences the valuation of a company through profitability in the Construction sector of Poland. The finding of this research support correlation of previous studies which tests the relationship between leverage on profitability (c; Grau & Reig, 2021; Mahmudin et al., 2019; Meghanathi & Chakrawal, 2021), leverage on firm value (Admi, 2019; Amin & Mollick, 2021; Karimi, 2020; Saputri & Bahri, 2021; Zhang & Zhou, 2020) and profitability on firm value (Fransisca & Herijawati, 2022; Mahdi & Khaddafi, 2020; Nanda & Panda, 2018; Tarsono, 2021).

CHAPTER V
CONCLUSION AND SUGGESTIONS FOR FURTHER RESEARCH

From the findings of this research, it can be inferred that: (1) Leverage has no influence on profitability in both sectors of Poland, both sectors of Romania, the Real Estate sector of Poland, the construction sector of Romania, and the real estate sector of Romania. Otherwise, Leverage has an influence on profitability in the Construction sector of Poland. (2) Leverage has no influence on firm value in both sectors of Poland, both sectors of Romania, the Real Estate sector of Poland, the construction sector of Romania, and the real estate sector of romania. Contrary, Leverage has an influence on firm value in the Construction sector of Poland (3) Profitability has no influence on firm value in the construction sector of Romania and the Real Estate sector of Poland. Otherwise, Profitability influences firm value in both sectors of Poland, both sectors of Romania, the Construction sector of Poland and the real estate sector of Romania. (4) Leverage does not influence firm value through profitability in both sectors of Poland, both sectors of Romania, the Real Estate sector of Poland, the construction sector of romania, and the real estate sector of Romania. On the Contrary, Leverage influences firm value through profitability in the Construction sector of Poland.

Although many other variables may have some influence on firm value, The factors that were examined in this research were restricted to debt and profitability. Therefore, for further research, the hypothesized variables are expected to influence profitability as a mediator and directly for companies listed

in the construction and real estate sector during the 2018-2022 period. It is not generated for all companies. The next authors may be able to describe in detail the economic conditions of each country to make it easier to compare each sector of the country.

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ATTACHMENT

Attachment 1

KEMENTERIAN AGAMA REPUBLIK INDONESIA
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JURNAL BIMBINGAN SKRIPSI

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NIM	: 200501110238
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Dosen Pembimbing	: Dr. Indah Yuliana, SE., MM
Judul Skripsi	: **WHETHER PROFITABILITY INTERVENES THE POSSIBILITY OF LEVERAGE ON THE FIRM VALUATION IN EASTERN EUROPE?**

JURNAL BIMBINGAN :

No	Tanggal	Deskripsi	Tahun Akademik	Status
1	11 Januari 2024	Konsultasi Publikasi	Genap 2023/2024	Sudah Dikoreksi
2	29 Februari 2024	Bab 1 2 3 Seminar Proposal	Genap 2023/2024	Sudah Dikoreksi
3	20 Maret 2024	Bab 4 5	Genap 2023/2024	Sudah Dikoreksi
4	27 Maret 2024	Revisi Proposal (Bab 1 2 3)	Genap 2023/2024	Sudah Dikoreksi
5	29 Maret 2024	Revisi Bab 4 5	Genap 2023/2024	Sudah Dikoreksi
6	1 April 2024	Skripsi (Bab 1-5)	Genap 2023/2024	Sudah Dikoreksi
7	2 April 2024	Turnitin Skripsi 35%	Genap 2023/2024	Sudah Dikoreksi
8	16 April 2024	Revisi Skripsi 14%	Genap 2023/2024	Sudah Dikoreksi
9	17 April 2024	Skripsi Dea Nabila Hasna NIM 200501110238	Genap 2023/2024	Sudah Dikoreksi

Malang, 17 April 2024
Dosen Pembimbing

Dr. Indah Yuliana, SE., MM

Attachment 2

KEMENTERIAN AGAMA REPUBLIK INDONESIA
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NIM	: 200501110238
Konsentrasi	: Manajemen Keuangan
Judul Skripsi	: **WHETHER PROFITABILITY INTERVENES THE POSSIBILITY OF LEVERAGE ON THE FIRM VALUATION IN EASTERN EUROPE?**

Menerangkan bahwa penulis skripsi mahasiswa tersebut dinyatakan **LOLOS PLAGIARISM** dari **TURNITIN** dengan nilai *Originaly report*:

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Malang, 30 April 2024
UP2M

Puji Endah Purnamasari, M.M

Attachment 3

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