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THE EFFECT OF CAPITAL STRUCTURE AND SALES GROWTH ON PROFITABILITY IN REAL ESTATE COMPANIES LISTED ON THE IDX FOR THE 2021-2024 PERIOD

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Abstract

This study aims to analyze the effect of capital structure and sales growth on profitability in real estate companies listed on the Indonesia Stock Exchange for the 2021–2024 period. This study used a quantitative approach with an explanatory method and a sample of 62 companies selected through purposive sampling, resulting in 248 data observations. Data were analyzed using SPSS version 29. The results showed that capital structure had a negative and significant effect on profitability, while sales growth did not significantly affect profitability. Simultaneously, capital structure and sales growth significantly affected profitability. The research findings indicate that the profitability of real estate companies is more influenced by the company's ability to manage its funding structure than by sales growth. This indicates that increased sales will not necessarily increase profitability if it is not balanced by effective cost management and funding sources.

Keywords: ***Capital Structure, Sales Growth, Profitability***

INTRODUCTION

The real estate sector plays a crucial role in the Indonesian economy because its development can create a multiplier effect for various other sectors, such as construction, financial services, and the building materials industry. According to data from the Central Statistics Agency (BPS, 2025) , this sector contributed 2.49% to the national Gross Domestic Product (GDP) in 2022. This figure indicates that the real estate industry is a strategic sector that influences the rate of national economic growth. Therefore, analyzing the financial performance of companies in this sector is crucial, particularly in terms of profitability, as this indicator reflects a company's ability to generate profits efficiently and indicates the level of business health and sustainability. High profitability reflects the effectiveness of a company's resource management and funding structure, and indicates good future business prospects (Nugraha & Riharjo, 2022) . Conversely, declining profitability can weaken a company's competitiveness and increase the risk of losses (Putry & Ardini, 2023) . Furthermore, profitability is a measure of managerial efficiency and added value for shareholders, while declining profitability can indicate problems with the company's funding strategy, sales, or asset management.

In practice, achieving profitability in real estate companies does not always align with their financial condition. One of the main challenges facing real estate companies is the high need for long-term funding, which causes them to rely on debt. This reliance on debt financing, if not balanced with adequate equity, can increase interest expenses and ultimately depress the company's profitability (Kosali, 2022) . Conversely, efficient capital structure management can support increased profitability, which ultimately improves owner welfare and company value. (Muniroh & Klaudia, 2022) . In addition to capital structure factors, sales growth also plays a significant role in determining profitability. Sales growth reflects a company's ability to expand its market and maintain operational performance over time. (Pratiwi et al., 2021) . However, in real estate companies, high sales growth is not always accompanied by increased net profit due to the capital-intensive nature of the industry, high construction costs, and large operational and financial expenses. Therefore, increased sales often do not significantly impact company profitability. Conversely, decreased sales can suppress a company's ability to generate profits, thus negatively impacting profitability (Suliyanti & Damayanti, 2022) . Real estate companies also face a number of external challenges that impact their financial stability and performance. In 2021, the government launched the Government-Borne Value Added Tax (PPN DTP) policy and the 0% down payment Home Ownership Credit (KPR) program, which successfully boosted property sales. However, in 2022–2023, the sector faced new challenges due to an increase in Bank Indonesia's benchmark interest rate from 3.5% to 5.75% and a surge in the prices of building materials such as cement and asphalt. This situation put pressure on companies' financial positions, so that increased sales did not always translate directly to increased net profit. This condition aligns with *the trade-off theory* , which states that the use of debt can improve company performance to a certain extent. However, if debt usage exceeds optimal capacity due to cost pressures and high interest rates, financial risks and interest expenses will increase, potentially reducing company profitability. Furthermore, *the pecking order theory* explains that when internal funds are limited, companies tend to increase the use of external financing in the form of debt, which can ultimately impact company profitability (Meilani & Wahyudin, 2021) .

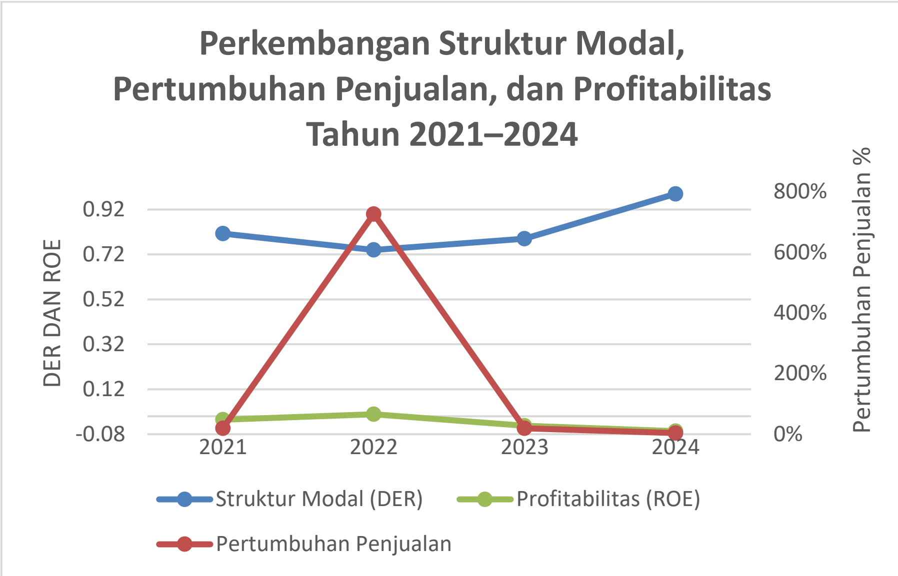

Figure 1. Development of Capital Structure, Sales Growth, and Profitability of Real Estate Companies in 2021–2024
Source: Processed by the author, 2026

Figure 1 shows a discrepancy between the capital structure, sales growth, and profitability of real estate companies during the 2021–2024 period. Capital structure, as measured by the Debt to Equity Ratio (DER), tended to increase at the end of the observation period, but this increase was not accompanied by an increase in profitability, as reflected in the relatively low Return on Equity (ROE) value that declined in 2023–2024. Meanwhile, sales growth showed high fluctuations, particularly the surge in 2022 that did not continue in subsequent years, so that sales increases have not been able to consistently contribute to company profits . Theoretically, sales growth is expected to increase profitability by increasing company revenue. However, in the capital-intensive real estate industry, high construction costs and large operational and financial expenses mean that sales increases are not always directly proportional to net profit increases (Brona et al., 2023) . This phenomenon indicates that capital structure and sales growth have not been able to optimally drive profitability increases.

The empirical findings in this study align with various previous studies that have shown inconsistent results regarding the relationship between capital structure, sales growth, and company profitability. Several studies have found that capital structure has a negative and significant effect on profitability (Septiyani et al., 2020; Indomo, 2019) , while other studies show that capital structure partially has no significant effect on profitability (Anindia & Amrizal, 2023) . On the other hand, Brastibian et al. (2020) found that capital structure has a positive and significant effect on company profitability. Inconsistent empirical results were also found in the sales growth variable. Farika & Dewi (2023) stated that sales growth had no significant effect on profitability. In contrast to these findings, Nasir (2020) found that sales growth had a negative and significant effect on profitability. Meanwhile, Sembiring (2020) found that sales growth partially had a negative but insignificant effect on profitability. Based on these differences in empirical results, this study focuses on examining and analyzing the effect of capital structure and sales growth on the profitability of real estate companies listed on the Indonesia Stock Exchange during the 2021–2024 period.

LITERATURE REVIEW

Trade-off Theory

Trade-off theory explains that companies attempt to determine the optimal level of debt use by balancing the benefits and costs arising from debt use. This theory emphasizes that companies need to consider the tax shield benefits *obtained* from using debt and the risk of bankruptcy that can arise from increasing corporate liabilities (Oktaviana & Taqwa, 2021) . Furthermore, trade-off theory also considers individual tax factors, agency costs, and the risk of financial distress in making corporate financing decisions. A capital structure is considered optimal if the tax savings benefits from using debt are able to offset the costs and financial risks arising from using said debt (Suastra et al., 2023) . According to Renalya & Purwasih (2022) , a company's decision to use debt is based on a balance between the benefits and costs of using debt. Companies will tend to increase their use of debt as long as the benefits, such as tax savings, outweigh the potential risk of financial distress. Conversely, if the costs and risks of using debt outweigh the benefits, the company will limit or reduce its use of debt to maintain financial stability.

Pecking Order Theory

Companies generally prioritize the use of internal funding sources, such as retained earnings and accumulated asset depreciation. Internal funding is considered more efficient because it avoids transaction costs with external parties and can minimize information asymmetry between management and external parties. Therefore, within the framework of Pecking Order Theory, companies tend to utilize internal funds first before turning to external funding sources (Ardianti et al., 2025) . When a company requires funding from external sources, it tends to choose the funding instrument with the lowest risk level first. In practice, companies typically use debt instruments such as bonds as their initial choice. Furthermore, companies can utilize securities with options, such as convertible bonds. Meanwhile, issuing new shares is generally a last resort if the company's funding needs cannot be met through other funding sources (Ismoyo & Aprinanto, 2020) .

Capital Structure

Capital structure can be defined as the composition of a company's funding sources, derived from internal and external funds. External funds generally consist of short-term debt and long-term debt, while internal funds come from retained earnings and equity participation by shareholders (Niwati, 2023) . The decision regarding the proportion of debt and equity used in the capital structure is a crucial aspect for a company because it can impact the organization's overall performance. A balanced composition of debt and equity can help a company improve performance and maintain financial stability. Conversely, if capital structure management is not carried out proportionally, the risk of financial distress can increase and potentially lead to company bankruptcy (Fathoni & Syarifudin, 2021) . In line with this, companies generally prioritize the use of internal funds to finance their operational activities because adequate internal funds can increase the company's ability to generate profits. This is because the use of internal funds does not incur interest payments like the use of debt. Conversely, companies that rely more heavily on debt will face interest payment obligations that could potentially depress profits. However, the use of debt also offers the advantage of tax savings (*tax shield*), as interest expenses can reduce the amount of tax the company must pay (Septhasari & Surjadi, 2021) . Thus, capital structure is related to company profitability, particularly through the use of internal funds and debt in financing business activities.

Sales Growth

Sales growth is an indicator used to assess market demand and a company's ability to compete in an industry. This concept reflects an increase in the number and value of sales from one period to the next. The higher the sales growth rate, the greater the likelihood of increased company revenue, reflecting improved business performance. Furthermore, sales growth can also indicate the success of investments made in the previous period and can be used as a basis for predicting the company's future development. (Cenora, 2023) . Sales growth also reflects the level of market acceptance of a company's products or services. Therefore, revenue generated from sales activities can be an indicator of a company's success in attracting consumers. Therefore, companies need to implement appropriate marketing strategies to win market competition and maintain sales stability. A company can be said to be experiencing good growth if there is a consistent increase in its core operational activities (Kurniati & Yuliana, 2022) A high sales growth rate reflects a company's ability to sustainably increase sales volume and value over time. This increase in sales activity has the potential to drive revenue growth, which ultimately increases profits. Increased profits will impact profitability. Therefore, sales growth is often viewed as a factor influencing a company's ability to generate profits (Dewi et al., 2020) . Therefore, sales growth is thought to influence a company's profitability.

Profitability

Profitability is a company's ability to generate profits through the utilization of its resources. The level of profitability is an important indicator in assessing company performance because the profits earned can be used to support business continuity and improve the quality of the company's products and services. Furthermore, a company's ability to generate profits can also increase external parties' confidence in the company's performance. Profitability analysis is crucial for both creditors and investors, as for creditors, profit is the primary source of interest and principal payments, while for equity investors, profit is a factor influencing investment value. Therefore, the level of profitability is often used as an indicator to assess management's effectiveness in managing company resources (Anggraeni & Santoso, 2024) . Companies with high levels of profitability tend to be more able to attract investors to invest their capital to support business expansion. Conversely, low levels of profitability can reduce investor confidence, potentially reducing their interest in investing in the company (Hermanus et al., 2022) .

Framework

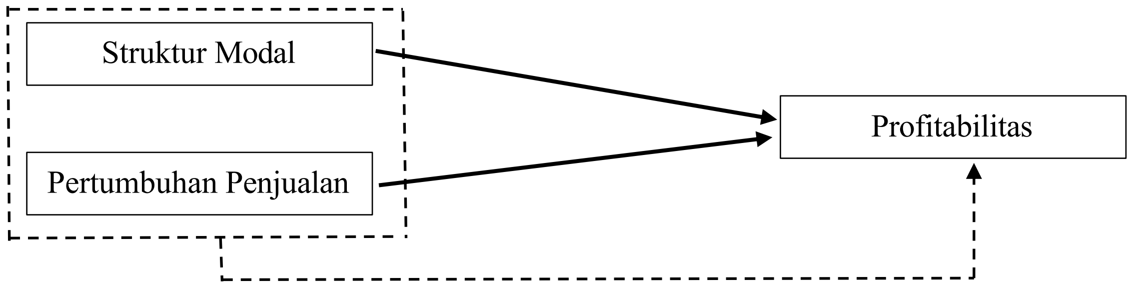

Figure 2. Framework of Thought

Caption: ——► Partial Influence of Variable X on Y
- - - -► The Effect of Variable X on Y Simultaneously

Hypothesis:
H1: Capital structure has a negative and significant effect on profitability.
H2: Sales growth has a positive and significant effect on profitability.
H3: Capital structure and sales growth simultaneously have a significant effect on profitability.

METHOD

This study uses a quantitative approach with an explanatory method to examine the effect of capital structure and sales growth on the profitability of real estate companies listed on the Indonesia Stock Exchange. The data used are secondary data in the form of annual financial reports for the 2021–2024 period obtained from the official website of the Indonesia Stock Exchange and the websites of each company. The population in this study was 96 real estate companies listed on the Indonesia Stock Exchange, with a sample of 62 companies determined using a purposive sampling technique, namely selecting samples based on certain criteria (Sugiyono, 2023). The sample criteria included real estate companies listed on the Indonesia Stock Exchange, consistently publishing financial reports during the 2021–2024 period, having complete data related to the research variables, and not experiencing delisting during the study period. The variables used in this study consist of capital structure, sales growth, and profitability. Capital structure is proxied by the Debt to Equity Ratio (DER), sales growth is measured using Sales Growth, while profitability is proxied by Return on Equity (ROE). The operationalization of the research variables is presented in Table 1. Data analysis was conducted using IBM SPSS Statistics version 29 which includes descriptive statistical analysis, classical assumption tests, and multiple linear regression analysis to examine the effect of independent variables on the dependent variable. The analytical model used in this study is multiple linear regression, with the following equation:

$ROE = \alpha + \beta_1 DER + \beta_2 PP + \varepsilon$

Explanation:
ROE = Profitability (Return on Equity)
α = Constant
β_1 = Regression coefficient for Capital Structure (DER)
β_2 = Regression coefficient for Sales Growth
DER = Debt-to-Equity Ratio
SG = Sales Growth
ε = Error (random error)

Table 1. Operational Research Variables

Variables	Indicator	Formula
Capital Structure	Debt to Equity Ratio (DER)	DER = Total Debt / Total Equity
Sales Growth %	Sales Growth	(Sales_t − Sales_(t−1)) / Sales_(t−1) × 100%
Profitability	Return on Equity (ROE)	ROE = Net Profit After Tax / Total Equity × 100%

RESULTS AND DISCUSSION
Descriptive Statistics

Table 2 . Descriptive Statistics

	N	MINIMUM	MAXIMUM	MEAN	STD. DEVIATION
DER	248	0.00	7.31	0.7805	0.90873
SALES GROWTH%	248	-0.0100	0.9667	0.0071	6.25845
ROE	248	-0.50	0.61	0.0147	0.10751

Source: SPSS Output Version 29, 2026

Based on Table 2 of the descriptive statistics, the Debt-to-Equity Ratio (DER) variable shows a minimum value of 0.00 and a maximum of 7.31, with a mean of 0.7805 and a standard deviation of 0.90873, indicating that, in general, companies rely more on equity than on debt, although there are significant variations in capital structure among companies. The sales growth variable has a minimum value of -0.0100% and a maximum of 0.9667%, with a mean of 0.0071 and a standard deviation of 6.25845%, indicating fairly high fluctuations, where some companies experienced a decline in sales while others experienced high growth, resulting in a skewed data distribution. Meanwhile, the Return on Equity (ROE) variable has a minimum value of -0.50 and a maximum of 0.61, with a mean of 0.0147 and a standard deviation of 0.10751, indicating that companies' profitability levels are relatively low and vary, with some companies incurring losses and others generating profits.

Classical Assumption Test
Normality Test

A normality test was performed to ensure that the residuals in the linear regression model had a normal distribution, which is a basic assumption in regression analysis (Ghozali & Kusumadewi, 2023) . The normality test used the Kolmogorov–Smirnov Test and was supported by a Normal P–P Plot image.

Table 3. Results of Residual Normality Test (Kolmogorov-Smirnov)

N	Test Statistics	Asymp. Sig.
248	0.087	< 0.001

Source: SPSS Output Version 29, 2026

Based on the results of the Kolmogorov-Smirnov test, the Asymp. Sig. value is obtained which is smaller than 0.001. This value is below 0.05, so it can be concluded that the residual data is not normally distributed. However, the linear regression analysis can still be continued because the number of samples in this study is relatively large (N = 248). With a large sample size, based on *the Central Limit Theorem* , the residual distribution is considered close to normal so that the regression model is still feasible to use even though there is a slight deviation from the normality assumption. Furthermore, to strengthen the analysis, a normal P–P plot is presented as follows.

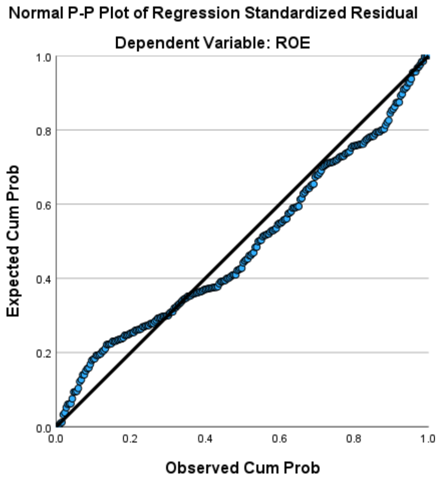

Figure 4. Normal PP Plot
Source: SPSS Output Version 29, 2026

Based on the normal P–P plot, the data points mostly lie around the diagonal line. This indicates that the residual distribution tends to approach a normal distribution. Although there are still slight deviations at the beginning and end, the overall pattern indicates that the assumption of normality is still met.

Test Multicollinearity

A multicollinearity test is performed to determine whether there is a strong linear relationship between the independent variables in a regression model. This test is necessary to ensure the model does not experience correlation issues between the independent variables, allowing for proper interpretation of the estimated results (Ghozali & Kusumadewi, 2023) .

Table 4. Multicollinearity Test Results

Model	Collinearity	
	Tolerance	VIF
DER	0.994	1,006
Sales Growth	0.994	1,006

Source: SPSS Output Version 29, 2026

Based on Table 4 Multicollinearity Test Results, the DER and sales growth variables each have a *tolerance value* of 0.994, which is above 0.10, and a VIF value of 1.006, which is below 10. This indicates that there is no high linear relationship between the independent variables. Thus, it can be concluded that the regression model does not experience symptoms of multicollinearity and is suitable for further analysis.

Heteroscedasticity Test

A heteroscedasticity test is performed to determine whether the residual variance in a regression model is constant or changing. This test is necessary to ensure the regression model meets classical assumptions and thus ensure reliable estimation results (Ghozali & Kusumadewi, 2023) .

Table 5. Heteroscedasticity Test Results

Model	Sig
DER	0.062
Sales Growth	0.888

Source: SPSS Output Version 29, 2026

Based on the heteroscedasticity test results using the Park test method, the DER variable has a significance value of 0.062, while the sales growth variable has a significance value of 0.888. Both values are above the 0.05 significance limit. This indicates that the independent variables do not have a significant effect on the residuals. Thus, it can be concluded that the regression model does not experience heteroscedasticity symptoms, so it is still suitable for use in further analysis. To support these results, the following scatterplot image is presented.

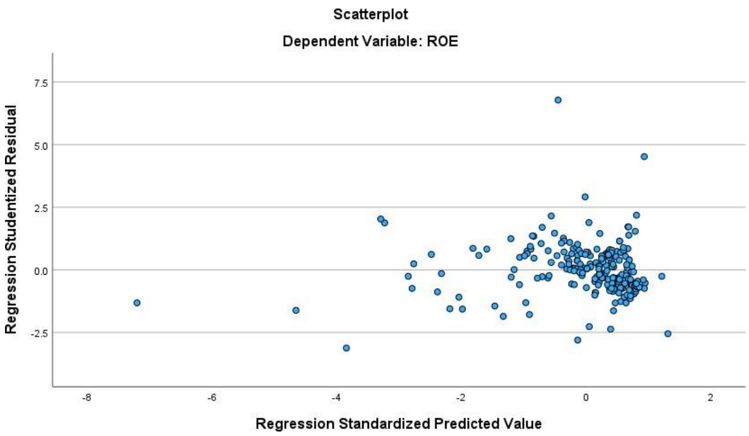

Figure 5. Scatterplot
Source: SPSS Output Version 29, 2026

Based on the scatterplot, the data points are randomly distributed above and below the zero axis and do not form any specific pattern, such as narrowing or widening. The distribution of the points is also relatively irregular and shows no particular trend. This indicates that there is no heteroscedasticity in the regression model, so the residual variance can be considered constant.

Autocorrelation Test

An autocorrelation test is performed to ensure that the residuals in the regression model are not correlated between periods. This test is essential to ensure the model meets classical assumptions and avoids bias in the estimation results. (Ghozali & Kusumadewi, 2023) .

Table 6. Results of the Durbin–Watson Autocorrelation Test with the Cochrane–Orcutt Method
Model Summary ^{b}

Model	**Durbin-Watson**
1	2,059

Source: SPSS Output Version 29, 2026

Based on the results of the autocorrelation test using the Durbin–Watson method, the initial regression model showed signs of autocorrelation. Therefore, improvements were made using the Cochrane–Orcutt method. After improvements, the Durbin–Watson value was obtained at 2.059 . This value is around 2, indicating that the regression model does not experience signs of autocorrelation. Thus, the regression model has met the autocorrelation assumption and can be used for further analysis.

Regression Model Test

F Test (Simultaneous)

The F test is used to determine whether the independent variables together have a significant effect on the dependent variable while assessing the feasibility of the regression model (Sabakodi & Andreas, 2024) .

Table 7. F Test Results
ANOVA [b]

Model	df	F	Sig
Regression	2	46,950	< 0.001 [b]

Source: SPSS Output Version 29, 2026

Based on the F-test results, the calculated F-value was 46.950 with a significance level of less than 0.001. This value is below the set significance level of 0.05. This indicates that the Debt to Equity Ratio (DER) and sales growth variables together have a significant effect on profitability (ROE). Thus, the third hypothesis (H3) in this study is accepted. These results indicate that capital structure and sales growth together play a role in explaining changes in company profitability.

t-Test (Partial)

The t-test is used to determine the effect of each independent variable on the dependent variable separately, assuming that the other independent variables in the regression model are in a constant condition. (Dzikriyah & Sulistyawati, 2020) .

Table 8. t-Test Results
Coefficients [a]

Model	Unstandardized B	t	Sig
(Constant)	0.062	8,055	< 0.001
DER	-0.062	-9,632	< 0.001
Sales Growth	0.002	1,828	0.069

Source: SPSS Output Version 29, 2026

Based on the t-test results in Table 8, the Debt to Equity Ratio (DER) variable has a significance value of less than 0.05, with a regression coefficient of -0.062. These results indicate that DER has a negative and significant effect on Return on Equity (ROE), thus accepting the first hypothesis (H1). This means that the higher the use of debt in corporate financing, the lower the company's profitability tends to be. Meanwhile, the sales growth variable has a significance value of 0.069, which is greater than 0.05, with a regression coefficient value of 0.002. These results indicate that sales growth does not play a role in increasing profitability, as proxied by Return on Equity (ROE), in real estate companies. This means that the level of sales growth has not been proven to determine changes in company profitability. Therefore, the second hypothesis (H2) is rejected. Thus, in this study, only the Debt to Equity Ratio (DER) variable is proven to have a significant influence on ROE.

R Test (Coefficient of Determination)

The coefficient of determination is used to measure the ability of all independent variables to explain the variation of the dependent variable (Chandra et al., 2019) .

Table 9. R Test Results

Model Summary

Model	R	R Square	Adjusted R Square
1	0.526 [a]	0.277	0.271

Source: SPSS Output Version 29, 2026

Based on Table 9, the results of the coefficient of determination test show an *Adjusted R Square value* of 0.271. This result indicates that the Debt to Equity Ratio (DER) and sales growth variables together are able to explain variations in profitability, as measured by Return on Equity (ROE), by 27.1%. The remaining 72.9% is influenced by other variables outside the research model that were not analyzed in this study. Thus, it can be understood that the ability of the independent variables to explain changes in ROE is still relatively limited **.**

DISCUSSION

The Influence of Capital Structure on Profitability

The results of the study indicate that capital structure, as proxied by the debt-to-equity ratio (DER), has a significant negative effect on profitability, as proxied by return on equity (ROE), among real estate companies listed on the Indonesia Stock Exchange during the 2021–2024 period. These results indicate that an increase in the DER is actually followed by a decrease in ROE. Although real estate companies require substantial sources of funding, increased use of debt does not automatically improve profitability. Additional debt must be able to generate profits commensurate with the financial consequences it entails. In this study, additional debt has not been able to generate profit growth proportional to the company's financial obligations—particularly interest expenses and principal payments—thereby reducing net income available to shareholders and ultimately diminishing the company's ability to generate a return on equity. The use of debt does not necessarily reduce profitability. Debt can actually increase Return on Equity (ROE) if the borrowed funds generate a return rate higher than the company's cost of debt. However, this condition has not yet materialized for the real estate companies in this study. Borrowed funds are generally used to finance project development, which requires a relatively long time to complete and sell; consequently, the profits generated have not yet been sufficient to offset the interest expenses and debt repayment obligations the company must fulfill. As long as the project is not yet completed or the units built have not been sold optimally, the company must still meet its financial obligations to creditors. As a result, a portion of the profits earned is used to pay interest and debt obligations, thereby reducing the net income available to shareholders. This situation leads to an increase in the Debt-to-Equity Ratio (DER), followed by a decline in Return on Equity (ROE).

Based on these findings, companies need to control their use of debt and prioritize internal funding sources as long as they are available and sufficient. This can be explained by the Pecking Order Theory, which states that companies tend to use internal funds first before turning to external funding sources. Internal funding is considered more efficient because it does not incur interest payment obligations or financial risks associated with debt. In the context of this study, the use of internal funds can reduce the company's dependence on debt while also lowering the financial burden it must bear. If internal funds are insufficient, debt can still be utilized, but it must be aligned with the company's ability to generate profits sufficient to cover the cost of that debt. Thus, the substantial funding needs of real estate companies do not always have to be met through increased debt; rather, it is necessary to consider the ability of the funded project to generate a rate of return greater than the cost of debt to ensure the company's profitability is maintained.

These findings are also consistent with the research by Maulana et al. (2023), Adityaputra & Perdana (2024), Andriani et al. (2026), and Saputra & Ardiles (2024), which indicate that capital structure has a significant negative impact on profitability. These findings reinforce the notion that the use of debt that has not been optimally managed can hinder a company's ability to generate profits. Therefore, real estate companies need to control their use of debt and optimize internal funding sources so that the funding structure they implement can support improvements in the company's profitability.

The Effect of Sales Growth on Profitability

The results of the study indicate that sales growth does not have a significant effect on the profitability of real estate companies. These findings suggest that increased sales have not yet been able to make a meaningful contribution to the company's profit growth. This situation indicates that changes in sales growth during the study period have not been accompanied by consistent changes in profitability. The varying characteristics of sales growth among the sample companies—both across periods and across firms—suggest that increased sales do not follow a pattern consistent with changes in profitability. In other words, companies experiencing higher sales growth do not necessarily exhibit a higher Return on Equity (ROE) as well. This suggests that the sales growth observed has not consistently resulted in profit increases capable of strengthening returns on equity. These variations cause the relationship between sales growth and ROE to be insufficiently strong to indicate a significant effect.

Theoretically, sales growth reflects an increase in a company's sales activity and has the potential to boost profits. However, an increase in sales is not necessarily followed by a commensurate increase in profits. Since ROE reflects a company's ability to generate profits from the equity it uses, sales growth can only increase ROE if that growth consistently generates sufficient profits. Thus, the non-significant effect of sales growth in this study indicates that sales growth among the sample companies has not yet become a sufficiently strong factor in explaining changes in ROE. An increase in sales alone is not enough to ensure an increase in profitability if it is not followed by an adequate and consistent increase in profit. The results of this study are also consistent with the research by Oktaviana & Retnaningdiah (2025), Narko (2021), Ramli & Yusnaini (2022), and Zannah et al. (2021). These findings indicate that an increase in sales does not necessarily lead to optimal improvements in profitability if the resulting revenue growth is not balanced by efficient cost management. Therefore, companies need to focus not only on increasing sales but also on cost control and effective project management so that corporate profitability can improve more optimally.

The Effect of Capital Structure and Sales Growth on Profitability

The results of the study indicate that capital structure and sales growth simultaneously have a significant effect on the profitability of real estate companies. These results suggest that capital structure and sales growth together are significantly correlated with changes in Return on Equity (ROE). These findings indicate that a company's profitability should be assessed based on a combination of financing decisions and sales growth, rather than on any single factor in isolation. When analyzed separately, capital structure—proxied by the Debt-to-Equity Ratio (DER)—was found to have a significant negative effect on ROE, while sales growth did not show a significant effect. However, when both variables are analyzed together, capital structure and sales growth demonstrate a significant effect on profitability. This indicates that financing decisions and sales growth collectively explain changes in a company's profitability, even though the strength of each variable's influence on ROE differs. Capital structure has a stronger influence on changes in ROE, whereas sales growth does not show a sufficiently strong effect when tested individually.

Theoretically, these findings can be explained by the Pecking Order Theory, which states that companies tend to prioritize internal funding sources before resorting to external financing. In the context of this study, financing decisions and sales growth together provide insight into a company's financial condition in explaining profitability. Capital structure relates to a company's decisions regarding the use of funding sources, while sales growth reflects sales development that has the potential to support profit generation. Thus, the significant simultaneous effect indicates that both aspects collectively play a role in explaining variations in profitability, even though sales growth alone has not shown a significant effect on ROE.

These findings are also consistent with those by Yuliani (2021), Rihi et al. (2025), and Muharromi & Sidik (2020), which show that capital structure and sales growth have a significant simultaneous effect on profitability. These findings reinforce the notion that a company's profitability can be understood through the interrelationship between financing decisions and sales growth. Therefore, real estate companies need to pay attention to financing decisions while maintaining sales growth as part of their efforts to improve profitability, taking into account that the impact of each factor on ROE may differ.

CONCLUSION

The results of this study indicate that capital structure, as proxied by the debt-to-equity ratio (DER), has a significant negative effect on the profitability of real estate companies listed on the Indonesia Stock Exchange during the 2021–2024 period. This suggests that higher levels of debt tend to increase interest expenses and financial risk, thereby limiting a company's ability to generate profits. Meanwhile, sales growth does not have a significant effect on profitability, meaning that increased sales have not made a meaningful contribution to the company's profit growth. Simultaneously, both capital structure and sales growth have a significant effect on profitability. These findings indicate that companies need to manage their use of debt carefully, improve cost efficiency, and effectively manage sales and project activities in order to maintain and improve profitability.

SUGGESTION

Future research can address the limitations of this study by developing a research model that incorporates additional variables that may influence the profitability of real estate companies, such as company size, working capital turnover, interest rates, inflation, and asset growth. The inclusion of these variables is expected to provide a broader understanding of the internal and external factors affecting corporate profitability and to enhance the research model's ability to explain variations in profitability.

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