Analysis of the Effect of Company Size, Liquidity, and Capital Structure on Company Value with Profitability as a Mediating Variable in Banks Listed on the Indonesia Stock Exchange in 2021-2023

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Abstract:

Company value in the banking context plays a crucial role because it reflects the success and financial health of the company. This indicates the level of trust of shareholders, clients, and financial services authorities in the bank's performance and integrity. With high corporate value, banks can attract investors, maintain liquidity, and better face market challenges. This study aims to analyze the description of company size, liquidity, capital structure, profitability, and corporate value in banks listed on the Indonesia Stock Exchange. In addition, this study examines the effect of company size, liquidity, and capital structure on corporate value and profitability. This study also analyzes the effect of profitability as a mediating variable in the relationship between company size, liquidity, and capital structure on company value in banks listed on the Indonesia Stock Exchange. This study is an explanatory quantitative study. The results show that, descriptively, banks listed on the Indonesia Stock Exchange generally have large company size, relatively safe liquidity levels, varied capital structures, fairly good profitability, and varying company values according to investor perceptions. Empirically, firm size and liquidity have a positive and significant effect on firm value, while capital structure has a negative and significant effect on firm value. Profitability has been shown to have a positive and significant effect on firm value. Furthermore, firm size has a positive and significant effect on profitability, while liquidity has a negative and significant effect on profitability, and capital structure has a negative and significant effect on profitability. The mediation test results show that profitability partially mediates the relationship between company size and company value, but does not mediate the relationship between liquidity and capital structure on company value. The R-square value shows that the independent variables are able to explain 22.8% of profitability and 16.9% of company value, indicating that the explanatory power of the model is in the moderate category.

Keywords: *Company size, Liquidity, Capital Structure, Company Value, and Profitability.*

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1. Introduction

In recent years, the value of banking companies listed on the Indonesia Stock Exchange (IDX) has shown fluctuations, reflecting dynamic market perceptions of financial performance and risk exposure. Firm value is an essential indicator that represents investors' assessment of a company's prospects and sustainability (Mawarti et al., 2022; Kansil et al., 2021). In the capital market context, firm value is commonly proxied by Price to Book Value (PBV), which indicates how far the market appreciates the company's equity relative to its book value. A higher PBV reflects stronger investor confidence in the company's future performance, while a lower PBV signals weakened market perception and potential financial inefficiency (Yulia & Prabowo, 2021).

Empirical studies have confirmed that firm value in various sectors, including banking, is influenced by several fundamental factors. Capital structure has been shown to affect firm value either positively or negatively depending on the composition of debt and equity (Al-Nsour & Al-Muhtadi, 2019; Amin, 2021). Company size also plays an important role, as larger firms tend to have better access to external financing and stronger market reputation (Ni Putu Yuni Pratiwi et al., 2016; Tadir et al., 2014). Liquidity reflects a company's short-term financial stability and its ability to meet obligations, which can influence investor confidence (Setiawan & Hadi, 2022). Meanwhile, profitability is widely recognized as a key determinant of firm value because it reflects operational efficiency and the firm's ability to generate returns for shareholders (Riana & Kurniawan, 2021; Oktrivina et al., 2023).

However, previous empirical findings remain inconsistent. Some studies found that capital structure significantly influences firm value (Bon & Hartoko, 2022; Rosa & Hermanto, 2024), while others reported insignificant or varying effects depending on sectoral characteristics (Pyalda Monic Ivangga et al., 2021; Yulia & Prabowo, 2021). Similarly, company size has been found to positively influence firm value in certain contexts (Ni Putu Yuni Pratiwi et al., 2016), yet other studies show indirect or conditional effects (Wulandari & Ahmad, 2023). Liquidity also demonstrates mixed results in its relationship with firm value (Thaib & Dewantoro, 2019; Setiawan & Hadi, 2022).

More importantly, several studies suggest that profitability may function not only as an independent determinant but also as a mediating variable that connects capital structure and firm characteristics to firm value (Adityaputra & Perdana, 2024; Wulandari & Ahmad, 2023). Nevertheless, empirical investigations examining the mediating role of profitability—particularly within the Indonesian banking sector—remain limited and fragmented. Most prior research has focused on manufacturing, property, transportation, or non-banking sectors (Pyalda Monic Ivangga et al., 2021; Oktrivina et al., 2023), leaving a contextual gap in banking institutions, which operate under stricter regulatory frameworks and distinct financial structures.

This condition reveals a clear research gap. First, there is inconsistency in empirical findings regarding the direct effect of company size, liquidity, and capital structure on firm value. Second, limited studies comprehensively test profitability as a mediating variable within the banking industry, especially for the most recent period. Given the strategic role of banking institutions in economic stability, understanding the determinants of firm value in this sector is highly urgent.

Therefore, this study aims to analyze the effect of company size, liquidity, and capital structure on firm value and to examine the mediating role of profitability in banking companies listed on the Indonesia Stock Exchange during the 2021–2023 period. The novelty of this research lies in integrating profitability as a mediating variable within a comprehensive model applied specifically to the Indonesian banking sector in the post-pandemic recovery period. This study is expected to contribute theoretically by enriching the literature on financial performance and firm value relationships, and practically by providing strategic insights for banking management and investors in optimizing corporate financial decisions to enhance firm value.

2. Theoretical Background

Company Value: defined as market value. Market value is the market assessment by investors, creditors, and other stakeholders of the company's condition, which is reflected in the market value of the company's shares, which is an indicator of company value (Hemastuti & Hermanto, 2014).

$$\text{PBV} = \frac{\text{Stock Price}}{\text{Book Value of Shares}} \: x \: 100\%$$

Profitability: is the ability of management to earn profits. To earn above-average profits, management must be able to increase revenue and reduce all expenses related to revenue (Abdul Halim, 2015).

$$\text{ROA} = \frac{\text{Net Profit}}{\text{Total Assets}} x \: 100\%$$

$$\text{ROE} = \frac{\text{Net Profit}}{\text{Total Capital}} x \: 100\%$$

Company Size: is a scale of companies that can be grouped into large and small companies based on total assets, total sales, and share value (Novari and Lestari, 2016).

$$Size = Total \: Asset$$

Liquidity: in banking, this is defined as a bank's ability to meet its short-term obligations in a timely manner without incurring losses.

$$LDR = \frac{\text{Total Loans}}{\text{Total Savings}} x 100\%$$

$$CR = \frac{kas}{\text{Current obligations}} x 100\%$$

Capital Structure: according to Mulyani (2017), this is the proportion of the use of own capital and debt in meeting the company's funding needs.

$$DAR = \frac{\text{Total Debt}}{\text{Total Assets}} x\ 100\%$$

$$DER = \frac{\text{Total Debt}}{\text{Total Capital}} x\ 100\%$$

3. Methodology

This research is an explanatory quantitative study that aims to examine the causal relationship between company size, liquidity, and capital structure as independent variables, profitability as a mediating variable, and company value as a dependent variable through statistical analysis. The research data was obtained from the financial reports of banking companies listed on the Indonesia Stock Exchange (IDX) during the 2021–2023 period, accessed through the IDX official website and supporting sources such as Yahoo Finance, Bloomberg, and Reuters.

The research population consisted of 47 banking companies, with a sample of 30 companies selected using purposive sampling based on the availability of complete financial reports, resulting in 90 observations. The data used is secondary data covering quantitative and qualitative information related to the research variables. Data analysis techniques include descriptive statistical analysis to describe data characteristics and inferential statistical analysis using the Partial Least Square (PLS) method with the help of statistical software. PLS analysis was conducted through the evaluation of the outer model and inner model to test the validity, reliability, and relationships between variables, including hypothesis testing based on path coefficient values, t-statistics, and p-values at a 5% significance level.

4. Empirical Findings/Results

Inferential Statistical Analysis
***Outer* Model Analysis**
In this study, *outer model* testing was conducted through three main approaches, namely:
***Convergent Validity* Test.**

Table 1. *Convergent Validity* Test Results

Variable	Indicator	*Factor Loadings*	Criteria	Notes
X1	SIZE	1,000	≥ 0.7	Valid

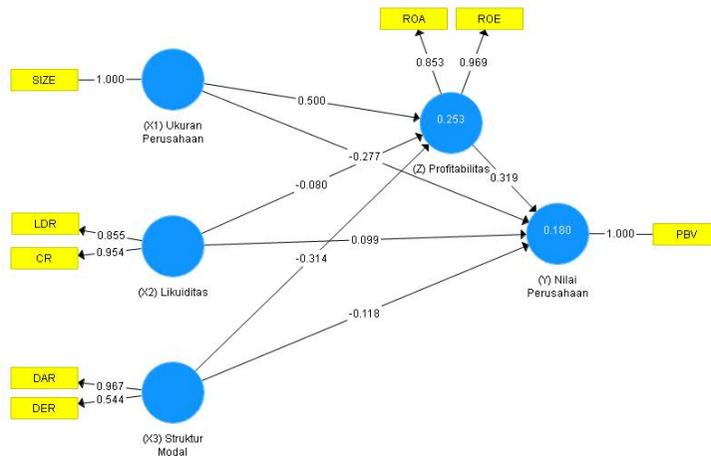|				
X2	LDR	0.855	≥ 0.7	Valid
	CR	0.954	≥ 0.7	Valid
X3	DAR	0.964	≥ 0.7	Valid
	DER	0.533	< 0.7	Weak
Y	PBV	1.000	≥ 0.7	Valid
Z	ROA	0.853	≥ 0.7	Valid
	ROE	0.969	≥ 0.7	Valid

Source: *SEM-PLS Output* (2025)

Figure 1. *Convergent Validity* **Test Results**
Source: *SEM-PLS Output* (2025)

Based on the results of the *Convergent Validity* test, the *Debt to Equity Ratio* (DER) indicator in the capital structure variable has a *loading factor* value of 0.533, which is below the minimum criterion of 0.7. This value indicates that the indicator has a low correlation with the latent construct it measures, so its contribution in explaining the capital structure variable is relatively weak.

Referring to the guidelines of Hair et al. (2019) and Ghozali & Latan (2015), indicators with a *loading factor* value below 0.7 can be considered for removal if their removal can improve the validity and reliability of the construct. *The re-evaluation* of *the measurement model* after modification can be seen in the following table and figure.

Table 2. Results of Convergent Validity Re-testing After Measurement Model Modification

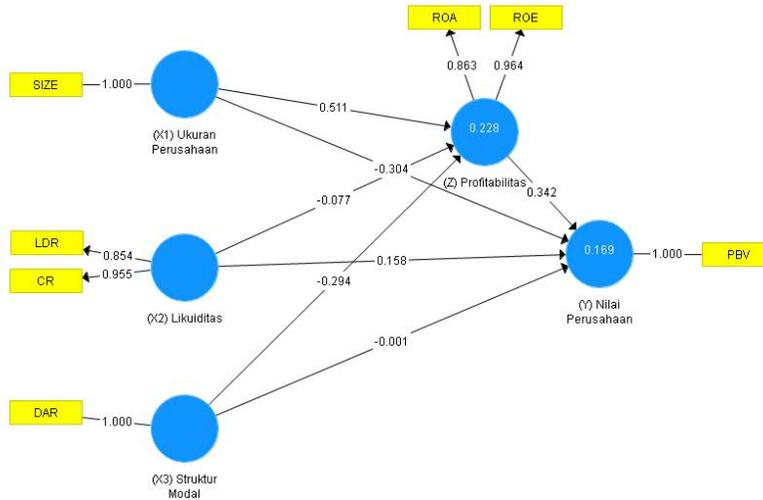| Variable	Indicator	*Factor Loadings*	Criteria	Note
X1	SIZE	1,000	≥ 0.7	Valid
X2	LDR	0.854	≥ 0.7	Valid
	CR	0.955	≥ 0.7	Valid
X3	DAR	1.000	≥ 0.7	Valid
Y	PBV	1,000	≥ 0.7	Valid
Z	ROA	0.863	≥ 0.7	Valid
	ROE	0.964	≥ 0.7	Valid

Source: *SEM-PLS Output* (2025)

Figure 2. Results of Convergent Validity Retesting After Measurement Model Modification
Source: *SEM-PLS Output* (2025)

Based on the results of the *Convergent Validity* test after removing the *Debt to Equity Ratio* (DER) indicator, all indicators showed a *loading factor* value above 0.7. This means that each indicator has a high correlation with its latent construct and is able to represent variables strongly and consistently. The DER indicator was removed because in the previous test, the *loading factor* value was only 0.533, which was below the minimum threshold of 0.7. This value indicates that DER does not contribute strongly enough to explain the capital structure construct (X3). After the indicator was removed, the *loading factor* value for the *Debt to Asset Ratio* (DAR) indicator increased to 1.000, indicating excellent convergent validity in the construct and conceptually considered most relevant to describe the total *leverage* level of banking companies.Thus, all variables in the research model, namely company size, liquidity, capital structure, profitability, and company value, have met the *convergent validity* criteria, so they can be declared valid and feasible to proceed to the construct reliability test and *inner* model analysis stages.

Discriminant Validity **Test**

Table 3. *Discriminant Validity* **Test Results (***Cross Loading***)**

Indicator	X1	X2	X3	Z	Y	Ket
SIZE	**1,000**	-0.213	0.375	0.417	-0.195	Valid
CR	-0.108	**0.955**	-0.547	0.016	0.245	Valid
LDR	-0.348	**0.854**	-0.684	-0.014	0.141	Valid
DAR	0.375	-0.650	**1.000**	-0.053	-0.236	Valid
ROA	0.115	0.216	-0.260	**0.863**	0.199	Valid
ROE	0.532	-0.106	0.063	**0.964**	0.202	Valid
PBV	-0.195	0.226	-0.236	0.216	**1.000**	Valid

Source: *SEM-PLS Output* (2025)

Based on the results in Table 3, all indicators have the highest *loading factor* value for their own construct compared to the correlation with other constructs. For example, the CR and LDR indicators have the highest values for the Liquidity variable (X2), at 0.955 and 0.854, respectively; the DAR indicator has the highest value for the Capital Structure variable (X3) at 1.000; while the ROA and ROE indicators have the highest values for Profitability (Z) at 0.863 and 0.964.

These findings indicate that each indicator is able to clearly distinguish the measured constructs, so that the measurement model has met the criteria *for Discriminant Validity*. Thus, there are no problems of multiple correlations or overlap between latent variables in this study. Based on the results of the *Convergent Validity* and *Discriminant Validity* tests, it can be concluded that all constructs in the research model have good validity, making them suitable for proceeding to the construct reliability test stage.

Composite Reliability Test

Table 4. Results of Construct Reliability Test

Variable	Cronbach's Alpha	Composite Reliability	AVE	Note
X1	1.000	1.000	1,000	Reliable
X2	0.795	0.901	0.820	Reliable
X3	1.000	1,000	1,000	Reliable
Y	1,000	1,000	1,000	Reliable
Z	0.821	0.911	0.837	Reliable

Source: *SEM-PLS Output* (2025)

Based on the results in Table 4, it can be seen that all research variables have *Cronbach's Alpha* and *Composite Reliability* values above 0.70, and AVE values greater than 0.50. This indicates that all constructs have high internal consistency and are able to explain most of the variance in their indicators.

The Liquidity variable (X2), measured by the *Current Ratio (CR)* and *Loan to Deposit Ratio (LDR)* indicators, obtained a *Cronbach's Alpha* value of 0.795, *Composite Reliability* of 0.901, and AVE of 0.820, which means that its reliability is very good. Meanwhile, the variables of Capital Structure (X3), Company Size (X1), Company Value (Y), and Profitability (Z) also showed perfect reliability values of (1.000) with AVE above 0.80, indicating that all indicators in these variables have a very strong and consistent relationship in measuring their respective latent constructs.

Thus, all constructs used in this research model are declared reliable, as they meet all recommended testing criteria. These results also reinforce the previous findings on *convergent validity* and *discriminant validity* tests, in which all indicators were proven to be valid in representing their constructs. Therefore, the measurement model (*outer model*) as a whole has met the validity and reliability requirements, making it feasible to proceed to the structural model analysis stage (*inner model*).

Inner Model
Determination Coefficient Test (*R-Square*)

Table 5. Determination Coefficient Test Results

Variable	R Square	Adjusted R Square
(Y) Company Value	0.169	0.130
(Z) Profitability	0.228	0.201

Source: *SEM-PLS Output* (2025)

Based on the results in Table 5, the R^2 value for the Company Value (Y) variable is 0.169, which means that the variables of Company Size (X1), Liquidity (X2), Capital Structure (X3), and Profitability (Z) are able to explain 16.9% of the variation in Company Value, while the remaining 83.1% is explained by other factors outside the research model. This value is classified as weak, indicating that there are still other variables outside the model that have the potential to affect company value.

Meanwhile, the R^2 value for the Profitability (Z) variable is 0.228, which means that the variables of Company Size (X1), Liquidity (X2), and Capital Structure (X3) are able to explain 22.8% of the variation in Profitability, while the remaining 77.2% is influenced by other factors outside the model. This value is classified as weak to moderate, indicating that the independent variables in this study have sufficient ability to explain fluctuations in company profitability, although they are not yet dominant.

Thus, the R^2 test results show that the structural model developed in this study still has limited explanatory power, but meets the model feasibility criteria in the context of social and financial research, where dependent variables are often influenced by many external factors outside the model.

Predictive Relevance Test (Q^2)

Table 6. *Predictive Relevance* Test Results (Q^2)

Variable	SSO	SSE	Q^2 (=1–SSE/SSO)	Description
X1	90,000	90,000	-	-
X2	180,000	180,000	-	-
X3	90,000	90,000	-	-
Y	90,000	81,485	0.095	Small prediction
Z	180,000	152,919	0.150	Medium prediction

Source: *Smart-PLS Output* (2025)

Based on the results in Table 6, the Q² value for the Profitability (Z) variable is 0.150 and for the Company Value (Y) variable is 0.095. Positive values for both variables indicate that the model has good predictive ability, because all Q² values are > 0.

Interpretatively, the Q² value for Profitability (0.150) falls into the moderate prediction category, which means that independent variables such as company size, liquidity, and capital structure have sufficient ability to predict profitability. Meanwhile, the Q² value

for Company Value (0.095) is classified as low, which indicates that the model's ability to predict company value is still limited and influenced by external factors outside the research model.

However, since both Q^2 values are positive, it can be concluded that this research model has good predictive relevance overall. This means that the relationship between latent variables in the model is not only statistically significant but also relevant in predicting the empirical phenomenon being studied, so the model is feasible to proceed to the next stage, namely the *Effect Size* Test (f^2).

Effect Size Test (f^2)

Table 7. *Effect Size* Test Results (f^2)

Inter-Variable Relationships	Y	Z	Description
X1	0.065	0.307	Small effect on Y, large effect on Z
X2	0.008	0.006	Very small effect on Y and Z
X3	0.01	0.087	Small effect on Y and Z
Z	0.092	-	Small effect on Y

Source: *SmartPLS Output* (2025)

Based on the results in Table 7, it can be seen that the f^2 value for the relationship between Company Size (X1) and Profitability (Z) is 0.307, which is classified as a large effect. This indicates that company size contributes significantly to increasing profitability, where companies with larger assets tend to have a better ability to generate profits. Meanwhile, the effect of Company Size (X1) on Company Value (Y) has an f^2 value of 0.065, which is in the small category, indicating that although company size plays a role in market value, its effect is not very dominant without being mediated by profitability.

The Liquidity variable (X2) has a very small f^2 value for both Profitability (0.006) and Company Value (0.008), indicating that a company's ability to maintain liquidity ( ) does not have a significant impact on increasing profits or company value in the context of this study. Meanwhile, the Capital Structure variable (X3) shows a small effect on Profitability (0.087) and Company Value (0.011), indicating that funding policies have a positive but relatively weak effect on company financial results. The relationship between Profitability (Z) and Firm Value (Y) shows an f^2 value of 0.092, which is in the small effect category, indicating that profitability contributes to an increase in firm value but is not the only dominant factor.

Path Coefficient / Bootstrapping

Table 8. *Path Coefficient* Test Results

Direct Effect	Original Sample (O)	Sample Mean (M)	STDEV	T Statistics	P Values	Note
(X1) -> (Y)	-0.304	-0.319	0.116	2.624	0.009	S
(X2) -> (Y)	0.158	0.148	0.153	1.035	0.301	TS
(X3) -> (Y)	-0.001	0.000	0.136	0.011	0.992	TS
(Z) -> (Y)	0.342	0.359	0.105	3.261	0.001	S
(X1) -> (Z)	0.511	0.525	0.108	4.745	0.000	S
(X2) -> (Z)	-0.077	-0.063	0.122	0.627	0.531	TS
(X3) -> (Z)	-0.294	-0.313	0.127	3.261	0.021	S

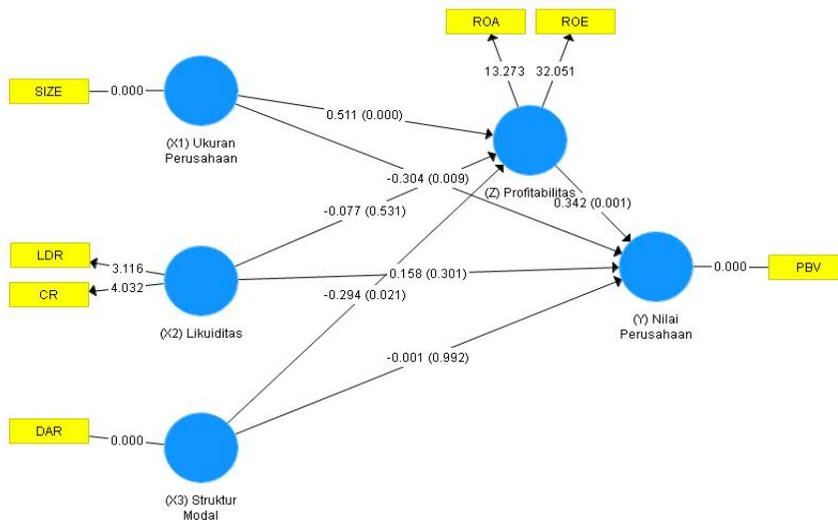Source: *SmartPLS Output* (2025)

Figure 3. *Path Coefficient* Test Results
Source: *SmartPLS Output* (2025)

Based on the results in Table 8 and Figure 3, several statistically significant relationships between variables with different directions of influence were obtained:

1) **Hypothesis 1: Company size (X1) has a positive and significant effect on company value (Y).**

   The test results show a coefficient value of -0.304, *a t-statistic* of 2.624, and *a p-value* of 0.009. Since *the p-value* is less than 0.05, the effect of Company Size on Company Value is negative and significant. This means that the larger the company size, the more the company value tends to decrease. This is possible because large companies face higher operational costs and managerial risks, which can reduce efficiency and investor appeal. Thus, the first hypothesis (H1), which states that company size has a positive effect on company value, **is rejected** because the direction of the effect is negative.

2. **Hypothesis 2: Liquidity (X2) has a positive and significant effect on company value (Y).**

   Based on the test results, the coefficient value is 0.158, *the t-statistic* is 1.035, and *the p-value* is 0.301. Because *the p-value* is greater than 0.05, the effect of Liquidity on Company Value is declared insignificant. This means that a company's ability to meet its short-term obligations has no direct effect on increasing company value. This occurs because investors pay more attention to profitability and long-term prospects than to short-term liquidity. Thus, the second hypothesis (H2), which states that liquidity has a positive and significant effect on company value, **is rejected**.

3. **Hypothesis 3: Capital structure (X3) has a positive and significant effect on company value (Y).**

   The test results show a coefficient value of **-0.001,** *a t-statistic* of **0.011**, and *a p-value* of **0.992.** Because *the p-value* is much greater than 0.05, the effect of Capital Structure on Company Value is declared **insignificant**. This indicates that funding policies through debt or equity do not have a significant effect on the perception of company value. Thus, **the third hypothesis (H3),** which states that *Capital Structure has a negative and significant effect on* **Company Value**, **is rejected**.

4. **Hypothesis 4: Profitability (Z) has a positive and significant effect on company value (Y).**

   Based on the test results, the coefficient value is 0.342, *the t-statistic* is 3.261, and *the p-value* is 0.001. Because *the p-value* is less than 0.05, the effect of Profitability on Firm Value is positive and significant. This means that the higher the level of profitability achieved by the company, the higher the firm value formed. This result supports the signaling theory, which states that high profits are a positive signal to investors about the company's financial prospects. Thus, the fourth hypothesis (H4), which states that profitability has a positive and significant effect on company value, **is accepted**.

5. **Hypothesis 5: Company size (X1) has a positive and significant effect on profitability (Z).**

   Based on the results of testing the relationship between Company Size (X1) and Profitability (Z), a coefficient value of 0.511, a t-statistic value of 4.745, and a p-value of 0.000 were obtained. A p-value smaller than 0.05 indicates that the effect of company size on profitability is positive and significant. This means that the larger the company size, the higher the level of profitability generated. Thus, the fifth hypothesis (H5), which states that company size has a positive and significant effect on profitability, **is accepted**.

6. **Hypothesis 6: Liquidity (X2) has a negative and significant effect on profitability (Y).**

   The test results show a coefficient value of -0.077, *a t-statistic* of 0.627, and *a p-value* of 0.531. Because *the p-value* is greater than 0.05, the effect of liquidity on profitability is declared insignificant. This means that a company's liquidity level does not directly affect its ability to generate profits. This condition can occur because companies with high liquidity are not necessarily able to manage their current assets productively to generate profits. Thus, the sixth hypothesis

(H6), which states that liquidity has a positive and significant effect on profitability, **is rejected**.

7. **Hypothesis 7: Capital structure (X3) has a negative and significant effect on profitability (Z).**

Based on the test results, a coefficient value of -0.294, *a t-statistic* of 2.318, and *a p-value* of 0.021 were obtained. Because *the p-value* is less than 0.05, the effect of Capital Structure on Profitability is declared to be negative and significant. This means that the higher the proportion of debt in the capital structure, the lower the level of profitability obtained by the company. This shows that excessive use of debt can increase interest expenses and financial risk, thereby reducing the company's net profit. Thus, the seventh hypothesis (H7), which states that Capital Structure has a negative and significant effect on Profitability, **is accepted**.

Specific Indirect Effects

Table 9. *Specific Indirect Effects* Test Results

Indirect Effects	Original Sample (O)	Sample Mean (M)	STDEV	T Statistics	P Values	Note
(X1) -> (Z) -> (Y)	0.175	0.194	0.084	2.070	0.039	S
(X2) -> (Z) -> (Y)	-0.026	-0.023	0.044	0.598	0.550	TS
(X3) -> (Z) -> (Y)	-0.101	-0.114	0.060	1.666	0.096	TS

Source: *SmartPLS Output* (2025)

Referring to Table 9 *Specific Indirect Effects* Test Results, it can be explained as follows:

1) Hypothesis 8: Company size (X1) has a positive and significant effect on company value (Y) through profitability (Z).

The *Original Sample* value of 0.175, *t-statistic* of 2.070, and *p-value* of 0.039 indicate that the indirect effect is significantly positive. This means that Profitability partially mediates the relationship between Company Size and Company Value.This is because the direct effect of Company Size on Firm Value is also significant (p = 0.009), with a different direction. Thus, hypothesis H8, which states that Company Size has a positive and significant effect on Firm Value through Profitability, **is accepted** (partial mediation).

2) Hypothesis 9: Liquidity (X2) has a positive and significant effect on company value (Y) through profitability (Z).

The *Original Sample* value of -0.026, *t-statistic* of 0.598, and *p-value* of 0.550 indicate that the effect is not significant. This means that Profitability does not mediate the relationship between Liquidity and Firm Value. Although theoretically high liquidity is expected to support profitability and increase firm value, the results of this study show the opposite. This finding indicates that companies with high liquidity do not necessarily allocate current assets productively to generate profits that can increase company value. Thus, hypothesis H9, which states that *Liquidity has a positive and significant effect on Company Value through Profitability*, **is rejected** (no mediation).

3) Hypothesis 10: Capital structure (X3) has a positive and insignificant effect on company value (Y) through profitability (Z).

The *Original Sample* value of -0.101, *t-statistic* of 1.666, and *p-value* of 0.096 indicate that the indirect effect is negative and insignificant. These results indicate that Profitability does not mediate the relationship between Capital Structure and Company Value. Although the negative direction of the relationship suggests that an increase in the proportion of debt has the potential to reduce profitability and impact company value, statistically the effect is not strong enough to be considered significant. This condition may occur because companies with high *leverage* face large interest expenses and financial risks that suppress their ability to generate profits. Thus, hypothesis H10, which states that Capital Structure has a positive but insignificant effect on Firm Value through Profitability, **is rejected** (no mediation).

5. Discussion

The findings indicate that company size does not necessarily strengthen firm value in the banking sector. Although large banks possess greater total assets and broader operational networks, investors do not automatically interpret size as a positive indicator of market value. This suggests that asset expansion alone is insufficient to enhance firm value without being accompanied by efficiency and strong financial performance. These results are consistent with the findings of Ni Putu Yuni Pratiwi et al. (2016) and Tadir et al. (2014), who emphasize that firm size may influence firm value differently depending on managerial effectiveness and financial structure. Furthermore, Adityaputra and Perdana (2024) highlight that firm size requires support from profitability performance to contribute positively to firm value. Thus, in the banking sector, investors appear to prioritize performance quality rather than organizational scale.

Liquidity was found not to directly determine firm value. Although liquidity reflects a bank's ability to meet short-term obligations and maintain financial stability, it does not automatically translate into higher market valuation. Excess liquidity may indicate idle funds that are not optimally allocated to productive activities. This finding aligns with the study of Setiawan and Hadi (2022), which suggests that liquidity alone is not a dominant determinant of firm value in the banking industry. Similarly, Thaib and Dewantoro (2019) explain that investors tend to focus more on profitability and growth prospects rather than short-term financial safety indicators.

Capital structure also does not directly enhance firm value. The proportion of debt in financing decisions must be managed carefully because excessive leverage increases financial risk and interest burden, potentially weakening investor confidence. This finding is consistent with Al-Nsour and Al-Muhtadi (2019), who demonstrate that capital structure influences firm value depending on how effectively debt is utilized. Amin (2021) further explains that leverage contributes positively only when it supports productive expansion and improves performance. In line with Yulia and Prabowo (2021), the impact of capital structure on firm value may vary across sectors,

particularly in banking, where regulatory frameworks and risk exposure are more stringent.

In contrast, profitability shows a strong relationship with firm value. Higher profitability reflects effective asset utilization and efficient capital management, which serve as positive signals to investors regarding future growth prospects. This finding supports Riana and Kurniawan (2021), who conclude that profitability is a key determinant of firm value in the banking sector. Similarly, Oktrivina et al. (2023) and Bon and Hartoko (2022) emphasize that companies capable of generating sustainable profits tend to gain higher market appreciation. Thus, profitability becomes a central factor influencing investor confidence and market valuation.

Further analysis reveals that company size contributes positively to profitability. Larger banks generally benefit from economies of scale, broader market access, and diversified income sources, which support higher earnings generation. This is in line with Sang Ayu Made Riska Vidyasari (2021), who found that firm size can enhance profitability through operational efficiency. Ambarsari and Hermanto (2017) also highlight that company scale influences financial performance, particularly when supported by effective asset management.

Conversely, liquidity does not significantly strengthen profitability. While maintaining sufficient liquidity is essential for operational stability, excessive liquidity may reduce the opportunity to generate higher returns from productive investments. This finding aligns with the results of Thaib and Dewantoro (2019), which indicate that liquidity must be balanced with investment efficiency to improve profitability.

Capital structure, however, shows a tendency to weaken profitability when leverage levels become excessive. High debt obligations increase financial expenses and risk exposure, thereby reducing net earnings. This is consistent with the findings of Al-Nsour and Al-Muhtadi (2019) and Amin (2021), who explain that leverage must remain within an optimal range to avoid suppressing profitability.

Regarding the mediating role of profitability, the results suggest that profitability acts as an important transmission mechanism between company size and firm value. Large companies are able to enhance firm value when their scale advantages translate into higher profitability. This supports the findings of Adityaputra and Perdana (2024) and Wulandari and Ahmad (2023), who highlight the mediating function of profitability in strengthening the relationship between firm characteristics and firm value.

However, profitability does not mediate the relationship between liquidity and firm value, nor between capital structure and firm value. This indicates that liquidity and leverage do not automatically improve firm value unless they effectively contribute to earnings performance. As emphasized by Rosa and Hermanto (2024), firm value is ultimately driven by sustainable profitability rather than by financial structure indicators alone.

Overall, these findings reinforce the argument that profitability is the primary driver of firm value in the banking sector, while company size, liquidity, and capital structure influence firm value indirectly and conditionally through their impact on profitability. This contributes to the growing body of literature highlighting the strategic role of profitability as a mediating variable in explaining firm value dynamics within regulated industries such as banking.

6. Conclusions

Based on the results of research on banking companies listed on the Indonesia Stock Exchange for the period 2021–2023, it can be concluded that descriptively, company size shows a tendency toward an increase in assets and the dominance of large banks, liquidity is at a safe level, capital structure shows controlled leverage variation, profitability reflects good financial performance, and company value shows differences in investor perception as reflected in PBV value. The hypothesis testing results show that company size has a negative and significant effect on company value, liquidity and capital structure have negative and positive effects but are not significant on company value, while profitability has a positive and significant effect on company value. Furthermore, company size has a positive and significant effect on profitability, liquidity has a negative and insignificant effect on profitability, and capital structure has a negative and significant effect on profitability. The mediation test results show that profitability partially mediates the relationship between company size and company value, but does not mediate the effect of liquidity or capital structure on company value. The R-Square value indicates that the model has moderate explanatory power, where profitability and company value can be explained to a limited extent by the independent variables used in this study.

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