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JAS (Jurnal Akuntansi Syariah)

THE ROLE OF PROFITABILITY IN MEDIATING DETERMINANTS OF FIRM VALUE

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ABSTRACT

This study aims to analyze the role of profitability in mediating the relationship between liquidity, leverage, and firm size on firm value for LQ 45 Index companies listed on the Indonesia Stock Exchange for the period 2018–2022. Using panel data analyzed with Eviews 13, the results show that liquidity has a positive but insignificant effect, leverage has a significant negative effect, and firm size has a significant positive effect on profitability. Additionally, liquidity has a positive but insignificant effect, leverage has a significant negative effect, firm size has a negative but insignificant effect, and profitability has a significant positive effect on firm value. Profitability does not mediate the effect of liquidity and firm size; however, it does mediate the effect of leverage on firm value. To enhance profitability and firm value, it is essential for companies to manage debt prudently, optimize scale and operational efficiency, and maintain healthy liquidity levels. These actions will help reduce the negative impact of leverage, leverage economies of scale, and ensure stable operational continuity.

Keywords: Profitability, Liquidity, Leverage, Firm Size, Firm Value.

PERAN PROFITABILITAS DALAM MEMEDIASI DETERMINAN NILAI PERUSAHAAN

ABSTRAK

Penelitian ini bertujuan untuk menganalisis peran profitabilitas dalam mediasi hubungan antara likuiditas, leverage, dan ukuran perusahaan terhadap nilai perusahaan pada perusahaan Indeks LQ 45 di Bursa Efek Indonesia periode 2018-2022. Dengan menggunakan data panel analisis data menggunakan Eviews 13. Hasil penelitian menemukan bahwa likuiditas berpengaruh positif tidak signifikan, leverage berpengaruh negatif signifikan, dan ukuran perusahaan berpengaruh positif signifikan terhadap profitabilitas. likuiditas berpengaruh positif tidak signifikan, leverage berpengaruh negative siginifikan, ukuran perusahaan berpengaruh negatif tidak siginifikan, dan profitabilitas berpengaruh positif siginifikan terhadap nilai perusahaan. Profitabilitas tidak mampu memediasi pengaruh likuiditas dan ukuran perusahaan, sedangkan untuk leverage, profitabilitas mampu memediasi pengaruh leverage terhadap nilai perusahaanin. Untuk meningkatkan profitabilitas dan nilai perusahaan, penting bagi perusahaan untuk mengelola utang dengan lebih bijak, mengoptimalkan ukuran dan efisiensi operasional, serta menjaga likuiditas yang sehat. Langkah-langkah ini akan membantu perusahaan mengurangi dampak negatif leverage, memanfaatkan skala ekonomi, dan memastikan kelangsungan operasional yang stabil.

Kata kunci: Profitabilitas, likuiditas, *leverage*, nilai perusahaan.

INTRODUCTION

Firm value is one of the primary indicators used by investors to assess a company's performance and future prospects. High firm value reflects investor confidence in the company’s ability to generate profits and sustain itself over the *long term. According to (Anggeriani, Fachrudin, and Silalahi 2018), maximizing firm value is crucial for a company, as it also maximizes shareholder wealth, which is the primary objective of a business. Numerous studies have examined factors affecting firm value, yet their findings have been inconsistent. Factors such as liquidity, leverage, firm size, and profitability can influence firm value.*

High liquidity signals to investors that the company has sound financial health and a low risk of bankruptcy. However, excessive liquidity may also indicate that a company is not optimally utilizing its financial resources. Several studies, including (Hapsoro and Falih 2020), (Reschiwati, Syahdina, and Handayani 2020), (Adhyasta and Sudarsi 2023), (Kahfi, Pratomo, and Aminah 2018), and (Syahputri, Budiwati, and Jariah 2020), found that liquidity has a positive and significant effect on firm value. Meanwhile, (Olivia and Wiksuana 2021), (Darmawan et al. 2020), and (Sari and Sedana 2020), found a negative and significant effect of liquidity on firm value. (Tui et al. 2017), (Nurwulandari, Wibowo, and Hasanudin 2021) observed a negative but insignificant effect of liquidity on firm value. In contrast, studies by (Putri and Sari 2020) and (Yondrichs et al. 2021), (Wahid, Ambarwati, and Satmoko 2022), show no significant impact of the current ratio on firm value. According to (Jihadi et al. 2021), liquidity has a positive effect on firm value. (Adiputra and Hermawan 2020) also found that liquidity had no significant negative impact on firm value. However, findings by (Maptuha, Hanifah, and Ismawati 2022), also found that liquidity had no significant negative impact on firm value. However, findings by (Putro and Risman 2021), (Suhendry, Toni, and Simorangkir 2021), (Yuliyanti et al. 2023), and (A'yun, Hanum, and Nurcahyono 2022), indicate that liquidity (CR) does not affect firm value.

The second factor affecting firm value is leverage. The leverage ratio is used to measure the extent to which a company's activities are financed by debt, including both short-term and long-term debt. A higher leverage ratio indicates a greater dependency on external parties (creditors) and a higher debt cost burden for the company (Suteja and Wulandari 2018). Leverage illustrates the extent to which a company uses debt in its capital structure. Appropriate use of debt can provide tax benefits and increase earnings per share; however, the increased risk of bankruptcy from excessive debt can reduce firm value (Brigham and Houston 2020). More profitable companies are generally better able to withstand the pressure of high debt obligations, supported by studies such as (Aditya et al. 2021), (Maptuha, Hanifah, and Ismawati 2022), (Wahid, Ambarwati, and Satmoko 2022), which found that the debt-to-equity ratio has a significant positive effect on firm value. Similarly, research by (Yuliyanti et al. 2023) and (Jihadi et al. 2021), found a positive effect of leverage on firm value. Meanwhile, (Lestari 2023) reported a significant effect of the debt-to-equity ratio on firm value, and (Simorangkir 2019) found that the debt-to-equity ratio affects Tobin's Q. In contrast, (Fosu et al. 2016), (Kahfi, Pratomo, and Aminah 2018) found a negative effect of leverage on firm value, while (Habakkuk, Nduati, and Wang'ombe 2023) found no significant impact of leverage on firm value. (Almomani et al. 2022) found that financial leverage does not significantly affect firm value, and similarly, (Dwiastuti and Dillak 2019) found that the debt-to-equity ratio does not have a significant positive effect on firm value. Studies by (Yulandri, Hertina, and

Asih 2023) and (Suhendry, Toni, and Simorangkir 2021) also found that the debt-to-equity ratio does not affect firm value.

Firm size is another significant factor in determining firm value. Large firms typically have better access to resources and capital markets, which can help them maintain stable performance and increase their value. However, firm size can also lead to inefficiencies, which may ultimately have a negative impact on firm value. This is supported by studies such as (Aditya et al. 2021) and (Adhyasta and Sudarsi 2023), which found that firm size has a significant positive effect on firm value. Similarly, (Sugosha and Artini 2020) and (Hapsoro and Falih 2020) found that firm size has a positive and significant effect on firm value, as did (Atiningsih and Izzaty 2021). Meanwhile, (Lestari 2023) and (Natsir and Yusbardini 2020) reported a significant effect of firm size on firm value. In contrast, (Anggeriani, Fachrudin, and Silalahi 2018), (Nurwulandari, Wibowo, and Hasanudin 2021) found that firm size has a positive but insignificant effect on firm value. Studies by (Hirdinis 2019), (Nugraha et al. 2020), (Reschiwati, Syahdina, and Handayani 2020), (Susanti and Restiana 2018), (Maptuha, Hanifah, and Ismawati 2022) and (Wahid, Ambarwati, and Satmoko 2022) indicate that firm size has a significant negative effect on firm value. However, (Dwiastuti and Dillak 2019) found that firm size does not have a significant positive effect on firm value, while (Yulandri, Hertina, and Asih 2023) reported that firm size does not affect Tobin's Q. Studies by (Hechmi and Saanoun 2024) and (Tui et al. 2017) found that firm size has a positive but insignificant effect on firm value. (Adiputra and Hermawan 2020), (Nurwulandari, Wibowo, and Hasanudin 2021), and (A'yun, Hanum, and Nurcahyono 2022) found that firm size has a negative but insignificant effect on firm value.

High profitability can enhance investor confidence, which in turn may increase a firm's value. Profitability is the end result of various policies and decisions made by a company (Brigham and Houston 2020). This is supported by studies from (Rosikah et al. 2018) and (Jihadi et al. 2021) who found that Return on Assets has a positive and significant effect on firm value. Similarly, research by (Faradila and Effendi 2023), (Sari and Sedana 2020), (Olivia and Wiksuana 2021), (Tui et al. 2017), (Buti and Wiyarni 2023), (Sucuahi and Cambarihan 2016), (Yulianti et al. 2024), (Zuhroh 2019), (Darmawan et al. 2020), (Yondrichs et al. 2021), (Sugosha and Artini 2020), (Syamsudin et al. 2020), (Dwiastuti and Dillak 2019), and (Maptuha, Hanifah, and Ismawati 2022) found that profitability has a positive and significant effect on firm value. Meanwhile, studies by (Lestari 2023) and (Natsir and Yusbardini 2020) indicate that profitability significantly impacts firm value. Research by (Suhendry, Toni, and Simorangkir 2021), and (Atiningsih and Izzaty 2021) also found a positive relationship between profitability and firm value, while (A'yun, Hanum, and Nurcahyono 2022) found that profitability affects firm value. In contrast, studies by (Astuti, Wahyudi, and Mawardi 2018) and (Hapsoro and Falih 2020), (Nurwulandari, Wibowo, and Hasanudin 2021) found that profitability has a positive but insignificant effect on firm value, and research by (Yuliyanti et al. 2023) found no effect of profitability on firm value. Similarly, (Novarianto and Dwimulyani 2019) found that profitability has no positive impact on firm value, while (Reschiwati, Syahdina, and Handayani 2020) reported that profitability does not significantly affect firm value.

Profitability, reflecting a company's ability to generate profits, is also considered a key factor mediating the relationship between liquidity, leverage, and firm size on firm value. The relationship between liquidity and firm value through profitability is supported by studies like (Suhendry, Toni, and Simorangkir 2021), which found that the Current Ratio (CR) has a positive and significant effect on Return on Assets (ROA), and research by (Tahu and Susilo 2017) and (Tui et al. 2017) which found that liquidity positively and significantly impacts profitability. (Darminto and Fuadati 2020) found that the Current Ratio (CR) has an insignificant effect on ROA, while (Nugraha et al. 2020) showed that the Current Ratio affects ROA. Likewise, research by (Nguyen, Le, and Nguyen 2024) and (Lau 2022) found that liquidity impacts profitability. In contrast, studies by (Maptuha, Hanifah, and Ismawati 2022) and (Maria, Wiagustini, and Sedana 2018) found that liquidity has a significant negative effect on profitability. Research by (Krismunita and Imronudin 2021) showed that the Current Ratio does not affect ROA. Lastly, (Putro and Risman 2021) found that profitability mediates the effect of liquidity on firm value, while (A'yun, Hanum, and Nurcahyono 2022) found that liquidity does not affect firm value through profitability.

The relationship between leverage and firm value through profitability is supported by research from (Suhendry, Toni, and Simorangkir 2021), which found that the Debt to Equity Ratio (DER) has a positive and significant effect on Return on Assets (ROA). In contrast, (Aditya et al. 2021) found that leverage has a significant negative effect on profitability. Further, (Suhendry, Toni, and Simorangkir 2021), concluded that ROA can mediate the effect of DER on firm value, and similarly, (Aditya et al. 2021), found that profitability mediates the relationship between leverage and firm value

The relationship between firm size and firm value through profitability is also supported by studies. (Hirdinis 2019) and (Aditya et al. 2021) found that firm size has a significant positive effect on profitability, while (Atiningsih and Izzaty 2021) concluded that firm size positively affects profitability. However, (Natsir and Yusbardini 2020), found that firm size significantly affects profitability, and (Tui et al. 2017) reported that firm size has a positive but insignificant effect on profitability. Additionally, (Natsir and Yusbardini 2020) and (Atiningsih and Izzaty 2021) found that profitability can mediate the impact of firm size on firm value. In contrast, (Hirdinis 2019), (A'yun, Hanum, and Nurcahyono 2022) and (Aditya et al. 2021) concluded that profitability cannot mediate the relationship between firm size and firm value.

This study was conducted to understand the impact of liquidity, leverage, and firm size on profitability and firm value, which is crucial for management in formulating effective financial strategies. The findings can enrich academic literature, provide practical insights for investors and stakeholders in making investment decisions, and support managers in managing debt and liquidity. Additionally, this research is relevant in the context of global economic uncertainty, helping companies understand the interaction of internal and external factors that influence financial performance. By analyzing multiple variables simultaneously, this study aims to provide a comprehensive picture of a company's financial performance and promote better business practices.

LITERATURE REVIEW

Liquidity

Liquidity reflects a company's ability to meet its short-term obligations as they come due without experiencing financial distress. According to (Brigham and Houston 2020), liquidity is essential as it indicates the company's ability to convert current assets into cash to meet short-term liabilities. The most commonly used measure for assessing a company's liquidity is the Current Ratio.

Leverage

Leverage refers to the use of debt as a funding source to enhance potential returns to the company's shareholders. (Brigham and Houston 2020) state that leverage can benefit a company by increasing its profits if the investment financed by debt generates returns greater than the debt cost itself. However, leverage also carries risks, particularly financial risk, as higher debt levels increase the company's obligations for interest and principal repayments. If the company cannot meet these obligations, it could lead to bankruptcy.

Firm Value

Firm size is a significant factor in financial analysis and management strategy. According to (Brigham and Houston 2020), firm size is often associated with the total assets owned, reflecting the resources available to support operations and business expansion. Generally, the larger the firm, the greater its capacity to secure funding from capital markets, either through equity or debt.

Profitability

Profitability is a measure of a company's performance in generating profit relative to its sales, assets, or equity. (Brigham and Houston 2020) describe profitability as a primary indicator of management efficiency in utilizing resources to generate profits. Common financial ratios used to measure profitability include Return on Assets (ROA) and Return on Equity (ROE).

Firm Value

Firm value represents the market's perception of the overall performance and future prospects of the company. According to (Brigham and Houston 2020), firm value can be defined as the market value assessed through stock price and the total equity held by shareholders. Firm value is crucial because the primary objective of financial management is to maximize it for the benefit of shareholders. A common measure used to assess firm value is Tobin's Q, which is the ratio of the company's market value of assets (market capitalization) to the replacement cost of the company's assets.

Hypothesis Development

Liquidity, measured by the Current Ratio (CR), reflects a company's ability to meet its short-term obligations. Companies with strong liquidity indicate an ability to easily pay current liabilities, reducing bankruptcy risk and enhancing stakeholder confidence, including that of investors and creditors. This trust can contribute to a better market reputation, potentially increasing sales and profitability. Research by (Suhendry, Toni, and Simorangkir 2021) found that CR has a positive and significant impact on ROA. Likewise, studies by (Tahu and Susilo 2017) and (Tui et al. 2017) found that liquidity positively and significantly influences profitability. (Nugraha et al. 2020) showed that Current Ratio (CR) has an impact on Return on Assets (ROA). Likewise, (Nguyen, Le, and Nguyen 2024), *(Lau 2022) showed that liquidity affects profitability. Therefore, the hypothesis in this study is: H_1 : Liquidity has a significant positive effect on profitability.*

Leverage, measured by the Debt to Equity Ratio (DER), reflects the use of debt to finance company assets. Debt use can provide companies with greater access to capital needed for expansion and investment, which, if managed well, can enhance income and profit potential. In this context, leverage can increase profitability if the returns from debt-financed investments exceed the debt costs. (Suhendry, Toni, and Simorangkir 2021) found that DER has a positive and significant effect on ROA, while (Aditya et al. 2021) found a negative effect. Therefore, the hypothesis in this study is: H_2 : Leverage has a significant positive effect on profitability.

Company size is often measured by total assets or revenue, reflecting the company's operational scale and capacity. Larger companies generally have more resources, better market access, and the ability to leverage economies of scale. These advantages can reduce unit costs, improve operational efficiency, and contribute to increased profitability. Furthermore, larger firms often have better bargaining power with suppliers and customers, which can contribute to higher profit margins. Research by (Hirdinis 2019) and (Aditya et al. 2021) found that firm size has a significant positive impact on profitability. Studies by (Atiningsih and Izzaty 2021) found that firm size positively impacts profitability, while research by (Natsir and Yusbardini 2020) indicated that firm size has a significant effect on profitability. Therefore, the hypothesis in this study is: H_3 : Firm size has a significant positive effect on profitability.

Liquidity, measured using the Current Ratio (CR), reflects a company's ability to meet its short-term obligations. Companies with high liquidity show they can repay debts and fulfill other financial commitments, which can boost investor confidence. A good level of liquidity also indicates efficient cash management, which can contribute to sustainable growth and increase the company's market value. Studies by (Hapsoro and Falih 2020), (Reschiwati, Syahdina, and Handayani 2020), (Adhyasta and Sudarsi 2023), (Kahfi, Pratomo, and Aminah 2018), and (Syahputri, Budiwati, and Jariah 2020) found that liquidity (CR) has a significant positive effect on firm value (Tobin's Q). Similarly, research by (Olivia and Wiksuana 2021), (Darmawan et al. 2020), (Sari and Sedana 2020), and (Jihadi et al. 2021) found that liquidity positively impacts firm value. Thus, the hypothesis in this study is: H_4 : Liquidity has a significant positive effect on firm value.

Leverage, measured by the Debt to Equity Ratio (DER), reflects the extent to which a company uses debt in its capital structure. Optimal leverage can increase firm value, as companies can utilize debt to finance investments that generate returns higher than the cost of debt. Thus, debt can be an effective tool to enhance shareholder returns, especially when interest rates are low and investment opportunities are high. Research by (Aditya et al. 2021), (Maptuha, Hanifah, and Ismawati 2022), and (Wahid, Ambarwati, and Satmoko 2022) found that DER has a significant positive effect on firm value, and studies by (Yuliyanti et al. 2023) and (Jihadi et al. 2021) indicated that leverage positively impacts firm value. (Lestari 2023) found that DER significantly affects firm value, while (Simorangkir 2019) found that DER affects Tobin's Q. Therefore, the hypothesis in this study is: H_5 : Leverage has a significant positive effect on firm value.

Firm size, measured by total assets or the natural logarithm of total assets (Ln Total Assets), reflects the scale of operations and production capacity. Large companies tend to have better access to resources, capital, and technology, allowing them to create better operational efficiencies. A larger firm size is also often associated with a higher reputation among investors and stakeholders, enhancing investment appeal and driving increased firm value. Studies by (Aditya et al. 2021) and (Adhyasta and Sudarsi 2023) ound that firm size has a significant positive effect on firm value, while (Sugosha and Artini 2020) and (Hapsoro and Falih 2020) ound that firm size has a significant positive effect on firm value. (Atiningsih and Izzaty 2021) found that firm size positively impacts firm value, while (Lestari 2023) and (Natsir and Yusbardini 2020)) found that firm size significantly affects firm value, as did (Anggeriani, Fachrudin, and Silalahi 2018). Therefore, the hypothesis in this study is: H_6 : Firm size has a significant positive effect on firm value.

Profitability, measured by Return on Assets (ROA), reflects a company's ability to generate profit from its assets or equity. Companies with high profitability demonstrate strong financial performance, which can increase investor and stakeholder confidence. Good profitability also indicates operational efficiency and optimal resource management, which ultimately enhances the company's appeal in the capital market and increases its value. Studies by (Rosikah et al. 2018) and (Jihadi et al. 2021) found that Return on Assets positively and significantly affects firm value. Other studies, including those by (Faradila and Effendi 2023), (Sari and Sedana 2020), (Olivia and Wiksuana 2021), (Tui et al. 2017), (Buti and Wiyarni 2023), (Sucuahi and Cambarihan 2016), (Yulianti et al. 2024), (Zuhroh 2019), (Darmawan et al. 2020), (Yondrichs et al. 2021), (Sugosha and Artini 2020), (Syamsudin et al. 2020), (Dwiastuti and Dillak 2019), and (Maptuha, Hanifah, and Ismawati 2022) also found that profitability has a positive and significant impact on firm value. (Lestari 2023) and (Natsir and Yusbardini 2020) confirmed that profitability significantly impacts firm value, while (Suhendry, Toni, and Simorangkir 2021) and (Atiningsih and Izzaty 2021) found that profitability positively affects firm value. (A'yun, Hanum, and Nurcahyono 2022) concluded that profitability influences firm value. Therefore, the hypothesis in this study is: H_7 : Profitability has a significant positive effect on firm value.

Liquidity, measured by the Current Ratio (CR), reflects a company's ability to meet its short-term obligations. Companies with good liquidity are better able to manage cash flow and avoid bankruptcy, creating a more favorable environment to improve profitability. High profitability indicates the company's efficiency in managing resources to generate profit, which can attract investor interest and enhance firm value. Therefore, high liquidity can positively impact firm value through increased profitability. The relationship between liquidity and firm value through profitability is supported by research by (Putro and Risman 2021), who found that profitability can mediate the effect of liquidity on firm value. Thus, the hypothesis in this study is: H_8 : Profitability can mediate the effect of liquidity on firm value.

Leverage, measured by the Debt to Equity Ratio (DER), indicates the extent to which a company uses debt to finance its assets. Companies that wisely utilize debt can increase capital efficiency, leading to higher profitability. In this *context, well-managed leverage allows companies to maximize returns from debt-financed assets, thereby improving profitability. Increased profitability subsequently strengthens firm value, as more profitable companies are typically more attractive to investors. Research by (Suhendry, Toni, and Simorangkir 2021) found that ROA can mediate the effect of DER on firm value. Similarly, (Aditya et al. 2021) found that profitability can mediate the relationship between leverage and firm value. Thus, the hypothesis in this study is: H_9 : Profitability can mediate the effect of leverage on firm value.*

A large firm size, typically measured by the natural logarithm of total assets (Ln Total Assets), indicates greater production capacity and resources, which can enhance operational efficiency. Large companies usually have better access to financing, quality labor, and economies of scale, which can potentially increase profitability. Higher profitability, in turn, improves the company's attractiveness to investors, thereby positively impacting firm value. Thus, a large firm size can contribute to increased firm value if the company effectively manages its resources to achieve high profitability. Research by (Natsir and Yusbardini 2020) and (Atiningsih and Izzaty 2021) found that profitability can mediate the effect of firm size on firm value. Therefore, the hypothesis in this study is: H_{10} : Profitability can mediate the effect of firm size on firm value.

METHOD

This research utilizes secondary data obtained from the Indonesia Stock Exchange (IDX) website and the websites of sample companies, specifically those listed in the LQ45 index for the period from 2018 to 2022. The sampling technique employed is purposive sampling, with criteria including companies listed on the IDX, consistent presence in the LQ45 index, publication of complete financial reports, and being non-banking entities during the specified period.

The study employs panel data analysis using EViews 13 software. This technique is appropriate as the data encompasses multiple companies (cross-sections) over several years (time series). Panel data analysis is utilized to control for unobserved variables, providing more efficient and unbiased estimates compared to separate cross-sectional or time series analyses.

Data analysis is performed using panel data in EViews 13, which includes multiple companies (cross-sections) over a defined time period (time series), resulting in more efficient estimates than those from separate cross-sectional or time series analyses. Before conducting regression tests, model selection is carried out using the Chow Test (to choose between the Fixed Effect Model (FEM) or Common Effect Model (CEM)), the Hausman Test (FEM vs. Random Effect Model (REM)), and the Lagrange Multiplier Test (REM vs. CEM).

In this study, firm value serves as the dependent variable, measured by Tobin's Q (the ratio of market value to book value of assets). Profitability is the mediating variable, measured by Return on Assets (ROA), which reflects the ability to generate profit. The independent variables include liquidity, measured by the Current Ratio (CR), indicating the ability to meet short-term obligations; leverage, measured by the Debt to Asset Ratio (DAR), which shows the use of debt to finance assets; and firm size, measured by the natural logarithm of total assets.

RESULTS AND DISCUSSIONS

Descriptive Statistics

Based on purposive sampling, there are 18 companies that meet the criteria for this study, covering a total research period of 5 years, resulting in 90 observations. Below are the descriptive statistics for the research sample.

Table 1 Research Results

	CR	*DER*	*SIZE*	*ROA*	*TOB_Q*
Mean	*2.069762*	*0.995962*	*31.74953*	*0.098193*	*2.370528*
Median	*1.793200*	*0.716950*	*31.73615*	*0.069050*	*1.328050*
Maximum	*5.654800*	*3.582700*	*33.65520*	*0.466600*	*18.35510*
Minimum	*0.335600*	*0.126200*	*30.42460*	*-0.057200*	*0.531200*
Std. Dev.	*1.222886*	*0.865086*	*0.858551*	*0.091028*	*3.136242*
Observations	*90*	*90*	*90*	*90*	*90*

Source : secondary data (2024)

Based on Table 1, the minimum value for liquidity (Current Ratio) is 0.335600, observed in the company EXCL in 2019. The maximum value is 5.654800, recorded by the company INCO in 2022. The mean value is 2.069762, with a standard deviation of 1.222886. The minimum value for leverage (Debt to Equity Ratio) is 0.126200, shown by the company MNCN in 2022, while the maximum value is 3.582700, indicated by the company UNVR in 2022. The mean value for this variable is 0.995962, with a standard deviation of 0.865086.

Next, the minimum value for firm size is 30.42460, observed in the company MNCN in 2018. The maximum value is 33.65520, recorded by the company ASII in 2022. The mean value for this variable is 31.74953, with a standard deviation of 0.858551. The minimum value for profitability (ROA) is – 0.057200, shown by the company EXCL in 2018. The maximum value is 0.466600, indicated by the company UNVR in 2018. The mean value for this variable is 0.098193, with a standard deviation of 0.091028. The minimum value for firm value (Tobin's Q) is 0.531200, observed in the company ANTM in 2021, while the maximum value is 18.35510, recorded by the company UNVR in 2018. The mean value for this variable is 2.370528, with a standard deviation of 3.136242.

Model Selection Analysis

Structure I : The Impact of Liquidity, Leverage, and Firm Size on Profitability

Based on the Chow Test results, the Cross-section F value is 0.0000 < 0.05, indicating that the chosen model is the Fixed Effect Model. The Hausman Test results show that the Cross-section random value is 0.0005 < 0.05, confirming that the Fixed Effect Model is preferred. The Lagrange Multiplier Test, Breusch-Pagan, also yields a value of 0.0000 < 0.05, leading to the choice of the Random Effect Model. Therefore, it can be concluded that the best model for this study is the Fixed Effect Model.

Structure II: The Impact of Liquidity, Leverage, Firm Size, and Profitability on Firm Value

Similar to Structure I, the Chow Test results indicate a Cross-section F value of 0.0000 < 0.05, leading to the selection of the Fixed Effect Model. The Hausman Test results show a Cross-section random value of 0.0000 < 0.05, *confirming the Fixed Effect Model. The Lagrange Multiplier Test also yields a value of 0.0000 < 0.05, supporting the Random Effect Model. Thus, the conclusion remains that the best model for this study is the Fixed Effect Model.*

Panel Data Regression Analysis

Structure I : The Influence of Liquidity, Leverage, and Firm Size on Profitability

Table 2 Regression Test Structure I

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.414084	0.696202	-2.031140	0.0461
CR	0.013543	0.010871	1.245752	0.2171
DER	-0.078628	0.018517	-4.246255	0.0001
SIZE	0.049215	0.022228	2.214097	0.0301
	Effects Specification			
Cross-section fixed (dummy variables)				
R-squared	0.868238	Mean dependent var		0.098193
Adjusted R-squared	0.830046	S.D. dependent var		0.091028

Source : secondary data (2024)

Based on Table 2, the regression for Structure I is as follows:

*ROA = -1.414084 + 0.013543*CR - 0.078628*DER + 0.049215*SIZE*

This result indicates that liquidity and firm size contribute positively, while leverage has a negative impact on profitability.

Furthermore, the Adjusted R-squared value is 0.830046, which allows us to conclude that the influence of liquidity, leverage, and firm size on profitability accounts for 83.00%, while the remaining 17.00% is attributed to other factors.

Structure II: The Influence of Liquidity, Leverage, Firm Size, and Profitability on Firm Value

Table 3 Regression Test Structure II

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	31.74085	16.91184	1.876842	0.0648
CR	0.328991	0.259389	1.268330	0.2090
DER	-1.647843	0.490714	-3.358054	0.0013
SIZE	-0.925157	0.542815	-1.704370	0.0929
ROA	9.809679	2.840672	3.453295	0.0010
	Effects Specification			
Cross-section fixed (dummy variables)				
R-squared	0.939092	Mean dependent var		2.370528
Adjusted R-squared	0.920282	S.D. dependent var		3.136242

Source : secondary data (2024)

Based on Table 3, the regression for Structure II is as follows:

*TOB_Q = 31.74085 + 0.328991*CR - 1.647843*DER -0.925157*SIZE + 9.809679*ROA*

This result shows that liquidity and profitability contribute positively to firm value, while leverage and firm size have a negative impact on firm value.

Additionally, the Adjusted R-squared value is 0.920282, indicating that the influence of liquidity, leverage, firm size, and profitability on firm value accounts for 92.03%, with the remaining 7.97% influenced by other factors.

Sobel Test

Table 4 Results of the Sobel Test

	Test statistik	*Std. Error*	*p-value*
CR→ ROA→ Tob. Q	*1,17186757*	*0,11336817*	*0,24125023*
DER→ ROA→ Tob. Q	*-2,67915963*	*0,28789454*	*0,00738072*
SIZE→ ROA→ Tob. Q	*1,86389404*	*0,25901867*	*0,06233659*

Source : secondary data (2024)

Discussion

This study finds that liquidity, measured by the Current Ratio (CR), has a t-statistic of 1.245752 with a probability value of 0.2171 (> 0.05). Therefore, H1 is rejected, leading to the conclusion that liquidity has a positive but insignificant effect on profitability. This suggests that while more liquid companies have the potential to generate profits, their influence is not strong enough to be considered significant in this study. This could be due to differences in industry sectors, as the sample comprises companies from the LQ45 index, which includes various industries where liquidity may be more critical in some sectors than in others. These findings are consistent with research by (Darminto and Fuadati 2020), which found that the Current Ratio (CR) has an insignificant effect on Return on Assets (ROA).

The study also reveals that leverage, measured by the Debt to Equity Ratio (DER), has a t-statistic of -4.246255 with a probability value of 0.0001 (< 0.05). Thus, H2 is rejected, and it can be concluded that leverage has a significant negative effect on profitability. This indicates that high levels of debt can reduce a company's net income, as the burden of interest payments and the financial risks associated with high leverage adversely impact profitability. Consequently, companies need to manage their capital structure carefully to ensure that debt does not excessively burden their operations and profitability. These results align with findings from (Aditya et al. 2021) and (Dewi and Abundanti 2019), which also indicate that leverage has a significant negative effect on profitability.

Furthermore, the study finds that firm size (SIZE) has a t-statistic of 2.214097 with a probability of 0.0301 (< 0.05), leading to the acceptance of H3. This means that firm size has a significant positive effect on profitability. Larger companies, with greater total assets, find it easier to secure external financing, allowing them to invest in potentially high-return projects, improve efficiency, and expand their markets. Additionally, larger firms tend to lower their per-unit costs due to higher production levels, spreading fixed costs, which enhances efficiency and profit margins, thus increasing profitability. These results are consistent with research by (Aditya et al. 2021) and (Adhyasta and Sudarsi 2023), which found that firm size has a significant positive effect on firm value.

The study finds that liquidity, measured by the CR, has a t-statistic of 1.268330 with a probability of 0.2090 (> 0.05), leading to the rejection of H4. Thus, it can be concluded that liquidity has a positive but insignificant effect on firm value. Although the Current Ratio (CR) shows a positive influence on firm *value, this effect is not significant, indicating that investors may prioritize other factors, such as growth, profitability, and operational efficiency, when determining firm value. Therefore, while CR is an important indicator of financial health, it is not the primary factor determining firm value among LQ45 companies. Since companies in the LQ45 index are already perceived as financially robust, a high CR may not provide substantial additional information for investors. This finding aligns with research by (Putri and Sari 2020) and (Wahid, Ambarwati, and Satmoko 2022), which indicates that the Current Ratio has an insignificant effect on firm value.*

The study also shows that leverage, measured by the DER, has a t-statistic of -3.358054 with a probability value of 0.0013 (< 0.05), leading to the rejection of H5. It can be concluded that leverage has a significant negative effect on firm value. This indicates that higher debt levels relative to equity increase the financial risk borne by the company, ultimately undermining investor confidence and lowering the firm's market value. Therefore, prudent debt management is essential to maintaining firm value, particularly in a competitive market environment like the LQ45 index. These findings are consistent with research by (Fosu et al. 2016) and (Kahfi, Pratomo, and Aminah 2018), which found that leverage (debt to equity ratio) has a significant negative effect on firm value.

Lastly, the study finds that firm size, measured by SIZE, has a t-statistic of -1.704370 with a probability of 0.0929 (> 0.05), leading to the rejection of H6. This suggests that firm size has a negative but insignificant effect on firm value. Although a large total asset base is often viewed as an indicator of company strength, a larger asset size does not always correlate positively with firm value. The insignificant effect implies that having substantial assets alone is not sufficient to enhance firm value, especially if those assets are not utilized efficiently to generate profits. For instance, large fixed assets such as factories or equipment may not be fully leveraged, resulting in high operational costs without a significant increase in revenue. This finding is consistent with research by (Adiputra and Hermawan 2020), (Nurwulandari, Wibowo, and Hasanudin 2021), and (A'yun, Hanum, and Nurcahyono 2022), which found that firm size has a negative but insignificant effect on firm value.

This study finds that profitability, measured by Return on Assets (ROA), has a t-statistic of 3.453295 with a probability value of 0.0010 (< 0.05). Therefore, H7 is accepted, leading to the conclusion that profitability has a significant positive effect on firm value. High profitability indicates that a company can generate substantial earnings, improve operational efficiency, and send positive signals to investors. This means that higher profitability impacts the increase in firm value, which is reflected in higher stock prices and market valuations. These results align with findings from (Faradila and Effendi 2023), (Sari and Sedana 2020) (Rosikah et al. 2018), (Jihadi et al. 2021), (Dewi and Abundanti 2019), (Zuhroh 2019), (Dwiastuti and Dillak 2019), (Tahu and Susilo 2017), (Tui et al. 2017), (Buti and Wiyarni 2023), (Sucuahi and Cambarihan 2016), (Yulianti et al. 2024), (Olivia and Wiksuana 2021), (Darmawan et al. 2020), (Yondrichs et al. 2021), (Sugosha and Artini 2020), (Syamsudin et al. 2020), (Maptuha, Hanifah, and Ismawati 2022) (Lestari 2023) and (Natsir and Yusbardini 2020), which all find that profitability positively and significantly affects firm value.

From the results of the Sobel test, the p-value is 0.24125023 (> 0.05) with a test statistic of 1.17186757, leading to the rejection of H8. Thus, it can be concluded that liquidity does not significantly affect firm value through profitability, indicating that profitability is not able to mediate the effect of liquidity on firm value. This suggests that liquidity and profitability may have different pathways influencing firm value, and liquidity does not significantly impact firm value through profitability. Other factors, such as growth, innovation, and efficiency, may play a more significant role in determining firm value in the stock market. This finding is consistent with research by (A'yun, Hanum, and Nurcahyono 2022), which found that liquidity does not affect firm value through profitability.

The Sobel test results show a p-value of 0.00738072 (< 0.05) with a test statistic of -2.67915963, leading to the acceptance of H9. This concludes that leverage has a significant effect on firm value through profitability, indicating that profitability can mediate the effect of leverage on firm value. This means that proper leverage usage can enhance profitability, which in turn increases firm value. In other words, efficiently and profitably used leverage can lead to higher earnings, subsequently impacting the increase in firm value. Therefore, good leverage management and a focus on enhancing profitability are key to improving firm value. This finding aligns with research by (Almomani et al. 2022), (Suhendry, Toni, and Simorangkir 2021), (Aditya et al. 2021), and (Dewi and Abundanti 2019), which found that profitability can mediate the relationship between leverage and firm value.

The Sobel test results indicate a p-value of 0.06233659 (> 0.05) with a test statistic of 1.86389404, leading to the rejection of H10. Thus, it can be concluded that firm size does not significantly affect firm value through profitability, meaning that profitability cannot mediate the effect of firm size on firm value. This indicates that having large assets alone is not sufficient to enhance firm value. Efficient asset usage and good management strategies are essential to ensure that large assets contribute positively to increasing firm value. Without strong profitability, a large company size may not significantly impact the market value of the firm. These results are consistent with previous research by (Hirdinis 2019), (A'yun, Hanum, and Nurcahyono 2022) and (Aditya et al. 2021), which found that profitability cannot mediate the relationship between firm size and firm value.

CONCLUSIONS

This study contributes to the literature on the relationships among liquidity, leverage, firm size, profitability, and firm value. The results indicate that profitability does not mediate the effects of liquidity and firm size on firm value but can mediate the effect of leverage on firm value, providing new insights into the internal mechanisms of companies within the context of the Indonesian capital market, specifically for firms listed in the LQ45 index. Theoretically, these findings highlight the need to consider mediating factors in models linking capital structure and firm performance, as direct effects This research also offers insights that can be utilized by company management, investors, and policymakers. The findings underscore the importance of prudent leverage management, as high *leverage without adequate profitability can decrease firm value. Investors may also use this information to be more cautious when evaluating companies with high leverage but low profitability.*

The study uses data from companies within the LQ45 index for the period 2018-2022. This limitation may restrict the generalizability of the results to all companies listed on the Indonesia Stock Exchange (IDX) or companies in other sectors. Although this research considers several important variables such as liquidity, leverage, firm size, and profitability, many other variables could influence firm value, such as innovation, risk management, or corporate governance quality, which were not included in this study's model. The research employs panel data analysis with a Fixed Effect Model. While this method is suitable for panel data, it may not fully capture all dynamics occurring within companies, especially those related to external factors such as macroeconomic conditions or regulatory changes.

Future researchers could expand the sample to include companies from various sectors and extend the study period to see if these findings hold consistent over a longer timeframe and across different sectors. Additionally, incorporating additional variables such as risk management or corporate governance could help examine how these factors interact with liquidity, leverage, and firm size in influencing firm value. Future research could also employ alternative methodological approaches, such as path analysis or structural equation modeling (SEM), to test more complex relationships among the studied variables.

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Bukti Konfirmasi Catatan Editor dan Isi Catatan
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Catatan Editorial

Participants

Zakaria Batubara (zakaria)

Ady Inrawan (ady)

Messages

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Naskah perlu diperbaiki sebelum kami serahkan ke reviewer, dg catatan:

- Naskah berbahasa Inggris tidak perlu dimiringkan, dan abstrak cukup berbahasa Inggris.

- Abstrak: Setelah tujuan tambahkan jenis penelitian, sumber data, teknik pengumpulan data, populasi beserta jumlahnya, teknik sampel berserta jumlah sampel, kemudian baru teknik analisis data dan alat bantu statistik. Untuk hasil ketika menunjukkan **tidak signifikan** (>0,05) berarti hasil **tidak berpengaruh** dan tidak ada lagi arah positif dan negatifnya (biasanya jika tidak signifikan ">0,05" maka t-statistic < 1,96). Setelah hasil jelaskan implikasi penelitian secara teoritis dan praktis.

- Pendahuluan: ketidakkonsistenan hasil penelitian terdahulu perlu dikelompokan , contoh paragraf 2 "likuiditas thd nilai perusahaan, dikelompokkan hasil penelitain terdahulu yang berpengaruh positif, berpengaruh negatif dan tidak berpengaruh "yang tidak signifikan masuk kedalam tidak berpengaruh dan tidak perlu lagi disebutkan arah positif atau negatifnya", begitu juga untuk paragraf 3, 4, dst. Setelah dipaparkan ketidakkonsistenan hasil baru diklaim gap research. Kemudian perlu ditampilkan kebaruan/novelty dari penelitian ini, mungkin bisa dilihat dari sisi ROA sebagai mediasi, buktikan dari penelitian terdahulu yang menggunakan ROA sebagai mediasi, jika ditemukan sampaikan apa perbedaannya dan klaim kebaruan/noveltynya. Kemudian baru jelaskan urgensi penelitian, originalitas penelitian, tujuan penelitian dan kontribusi yang diharapkan.

- Telaah literatur: Perlu dimuncul grand theory seperti teori sinyal atau yang lain, kemudian baru teori variabel Y, teori variabel mediasi, dan teori variabel x. Kemudian baru pengembangan hipotesis, sebelum merumuskan masing2 hipotesis, perlu dijelaskan logika berpikir tentang hubungan teori "grand theory dengan teori variabel" dan hasil penelitian terdahulu sebagai dasar perumusan hipotesis.

- Metode: perlu dijelaskan jenis penelitian, sumber data, teknik pengumpulan data, populasi beserta jumlahnya, teknik sampel berserta jumlah sampel (jika purposive sampling buat tabel kriteria dan jumlah sampelnya), kemudian baru teknik analisis data dan alat bantu statistik. Kemudian tampilkan tabel definisi operasional variabel yang berisikan 4 kolom (Nama variabel, definisi (plus referensi), proksi/rumus/pengukuran (plus referensi), skala)

- Hasil dan Pembahasan: Setelah statistik deskriptif tampilkan hasil uji normalitas data. Tabel 2, 3 dan 4 perlu dijelaskan angka2 statistik dan hasil hipotesis serta hipotesis diterima/ditolak (bukan dipembahasan). Pembahasan perlu dibuat sub judul berdasarkan masing2 hipotesis, dan tidak perlu lagi memunculkan angka2 statistik dari uji hipotesis. Masing2 pembahasan harus berisikan: hasil temuan penelitian; indikasi temuan; penjelasan analisis penulis kenapa hasil bisa berpengaruh/tidak, kaitkan dengan teori "termasuk grand theory", kenyataan dilapangan, data dan elaborasi dengan penelitian terdahulu; tampilkan dukungan hasil dari penelitian terdahulu.

- Kesimpulan: berisikan hasil inti temuan penelitain, implikasi penelitian "teoritis & praktis", keterbatasan penelitian, saran penelitian atas keterbatasan tersebut.

- Daftar Pustaka: referensi berbahasa indonesia atau dari jurnal nasional sebaiknya diganti menjadi referensi dari artikel jurnal nasional Sinta 2 atau Sinta 1, atau jurnal Internasional.

Silakan diperbaiki, file hasil perbaikan di upload kembali di discussion ini, ditunggu paling lambat tanggal 5 November 2024. Terima kasih.

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Adi Indra <adindr@gmail.com> 5 November 2024 pukul 20.00
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Revisi artikel saya sudah saya upload ya Pak.
Mohon bantuan dan kerjasamanya.
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THE ROLE OF PROFITABILITY IN MEDIATING DETERMINANTS OF FIRM VALUE

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ABSTRACT

This study aims to analyze the role of profitability in mediating the relationship between liquidity, leverage, and firm size in relation to firm value. The data used in this study are secondary data obtained from the Indonesia Stock Exchange websites. The population consists of 71 companies listed in the LQ45 index for the period 2018-2022. The study sample includes 18 non-bank companies within the LQ45 index, selected through purposive sampling, yielding a total of 90 observations over five years. Data analysis was conducted using panel data with EViews 13 software. model selection was carried out through the Chow Test, Hausman Test, and Lagrange Multiplier Test. The results indicate that liquidity has no effect on profitability, whereas leverage and firm size significantly impact profitability. Furthermore, leverage influences firm value, while liquidity and firm size show no significant effect on firm value. Profitability does not mediate the effect of liquidity and firm size on firm value but does mediate the effect of leverage on firm value. Theoretically, this research complements previous theories and serves as a reference for future studies. Practically, investors can utilize this information to exercise caution when assessing companies with high leverage levels but low profitability.

Keywords: Profitability, Liquidity, Leverage, Firm Size, Firm Value.

PERAN PROFITABILITAS DALAM MEMEDIASI DETERMINAN NILAI PERUSAHAAN

INTRODUCTION

Firm value is one of the primary indicators used by investors to assess a company's performance and future prospects. High firm value reflects investor confidence in the company’s ability to generate profits and sustain itself over the long term. According to (Anggeriani, Fachrudin, and Silalahi 2018), maximizing firm value is crucial for a company, as it also maximizes shareholder wealth, which is the primary objective of a business. Numerous studies have examined factors affecting firm value, yet their findings have been inconsistent. Factors such as liquidity, leverage, firm size, and profitability can influence firm value.

High liquidity signals to investors that the company has sound financial health and a low risk of bankruptcy. However, excessive liquidity may also indicate that a company is not optimally utilizing its financial resources. Several studies, including (Kahfi, Pratomo, and Aminah 2018), (Hapsoro and Falih 2020), (Reschiwati, Syahdina, and Handayani 2020), (Darmawan et al. 2020), (Sari and Sedana 2020), (Jihadi et al. 2021), (Olivia and Wiksuana 2021), dan (Ripaluddin, Pasulu, and Taufiq 2023) liquidity has a positive effect on firm value. In contrast, studies by (Tui et al. 2017), (Adiputra and Hermawan 2020), (Putro and Risman 2021), (Suhendry, Toni, and Simorangkir 2021), (Nurwulandari, Wibowo, and

Hasanudin 2021), (Yondrichs et al. 2021), (Wahid, Ambarwati, and Satmoko 2022), (Handayani, Indarto, and Santoso 2022), (Budiarti, Moeldjadi, and Wijayanti 2023), (Yuliyanti et al. 2023), dan (Zulfa, Azam, and Bandono 2024) indicate that liquidity (CR) does not affect firm value.

The second factor affecting firm value is leverage. The leverage ratio is used to measure the extent to which a company's activities are financed by debt, including both short-term and long-term debt. A higher leverage ratio indicates a greater level of dependence on external parties (creditors) and a larger amount of interest expenses that the company must pay. Leverage reflects how much debt a company uses in its capital structure. When used appropriately, debt can provide tax benefits and increase earnings per share. However, excessive debt can lead to a higher risk of bankruptcy, which may diminish firm value. Several studies have been conducted, including those by (Fosu et al. 2016), (Kahfi, Pratomo, and Aminah 2018), (Lestari 2023), (Simorangkir 2019), (Jihadi et al. 2021), (Wahid, Ambarwati, and Satmoko 2022), (Ripaluddin, Pasulu, and Taufiq 2023), (Yuliyanti et al. 2023), and (Zulfa, Azam, and Bandono 2024), which found that leverage significantly affects firm value. In contrast, research by (Dwiastuti and Dillak 2019), (Suhendry, Toni, and Simorangkir 2021), (Almomani et al. 2022), (Handayani, Indarto, and Santoso 2022), (Yulandri, Hertina, and Asih 2023), and (Habakkuk, Nduati, and Wang'ombe 2023) found that leverage does not affect firm value.

Firm size is also a significant factor in determining firm value. Larger companies typically have better access to resources and capital markets, which can help them maintain stable performance and enhance firm value. However, company size can also lead to inefficiencies that ultimately negatively impact firm value. Several studies have been conducted, including those by (Susanti and Restiana 2018), (Anggeriani, Fachrudin, and Silalahi 2018), (Hirdinis 2019), (Sugosha and Artini 2020), (Nugraha et al. 2020), (Reschiwati, Syahdina, and Handayani 2020), (Hapsoro and Falih 2020), (Natsir and Yusbardini 2020), (Nurwulandari, Wibowo, and Hasanudin 2021), (Atiningsih and Izzaty 2021), (Wahid, Ambarwati, and Satmoko 2022), (Lestari 2023), and (Zulfa, Azam, and Bandono 2024), which found that firm size has a effects on firm value. In contrast, research by (Tui et al. 2017), (Dwiastuti and Dillak 2019), (Adiputra and Hermawan 2020), (Nurwulandari, Wibowo, and Hasanudin 2021), (Handayani, Indarto, and Santoso 2022), (Yulandri, Hertina, and Asih 2023), and (Hechmi and Saanoun 2024) found that firm size (SIZE) does not affect firm value.

High profitability can enhance investor confidence, which in turn can increase firm value. Profitability is the end result of a series of policies and decisions made by the company (Brigham and Houston 2020). Several previous studies have been conducted, including those by (Sucuahi and Cambarihan 2016), (Tui et al. 2017), (Rosikah et al. 2018), (Zuhroh 2019), (Dwiastuti and Dillak 2019), (Sari and Sedana 2020), (Darmawan et al. 2020), (Sugosha and Artini 2020), (Syamsudin et al. 2020), (Natsir and Yusbardini 2020), (Jihadi et al. 2021), (Yondrichs et al. 2021), (Olivia and Wiksuana 2021), (Suhendry, Toni, and Simorangkir 2021), (Atiningsih and Izzaty 2021), (Handayani, Indarto, and Santoso 2022), (Faradila and Effendi 2023), (Buti and Wiyarni 2023), (Lestari 2023), (Budiarti, Moeldjadi, and Wijayanti 2023), (Zulfa, Azam, and Bandono 2024), and (Yulianti et al. 2024), which found that profitability affects firm value.

In contrast, research conducted by (Astuti, Wahyudi, and Mawardi 2018), (Reschiwati, Syahdina, and Handayani 2020), (Hapsoro and Falih 2020), (Nurwulandari, Wibowo, and Hasanudin 2021), (Ripaluddin, Pasulu, and Taufiq 2023), and (Yuliyanti et al. 2023) found that profitability does not affect firm value.

Furthermore, profitability, which reflects a company's ability to generate profits, is considered a key factor that mediates the relationship between liquidity, leverage, and firm size on firm value. The liquidity of a company has an impact on its value, both directly and through profitability as a mediator. Adequate liquidity enables a company to meet its short-term obligations, providing confidence to investors about the company's financial stability, which can enhance firm value. However, high liquidity also needs to be balanced with effective management to avoid hindering asset productivity. With maintained liquidity, the company can operate efficiently, supporting an increase in profitability. High profitability indicates optimal company performance, thus enhancing its attractiveness to investors and ultimately increasing firm value. Several previous studies have been conducted, including those by (Tahu and Susilo 2017), (Tui et al. 2017), (Nugraha et al. 2020), (Bintara 2020), (Suhendry, Toni, and Simorangkir 2021), (Ripaluddin, Pasulu, and Taufiq 2023) and (Nguyen, Le, and Nguyen 2024), which found that liquidity affects profitability. In contrast, research conducted by (Krismunita and Imronudin 2021) and (Handayani, Indarto, and Santoso 2022) found that liquidity does not affect profitability. Further research by (Putro and Risman 2021) found that profitability can mediate the effect of liquidity on firm value. However, the studies by (Handayani, Indarto, and Santoso 2022) and (Ripaluddin, Pasulu, and Taufiq 2023) found that profitability is not capable of mediating the effect of liquidity on firm value.

Furthermore, a company's leverage has an important relationship with firm value, particularly when influenced by the mediating role of profitability. Optimal use of leverage allows a company to finance investments without sacrificing equity, thereby increasing potential profits and growth. However, high leverage also increases financial risk and interest costs, which can reduce net income. In this context, profitability mediates the relationship by demonstrating the company's effectiveness in managing debt to generate profits. If a company can efficiently use leverage to enhance profitability, it will attract investor interest and increase firm value. Conversely, if leverage fails to improve profitability, the financial risks borne by the company may negatively impact its value. Several previous studies have been conducted, including those by (Nugraha et al. 2020), (Bintara 2020), (Suhendry, Toni, and Simorangkir 2021), and (Ripaluddin, Pasulu, and Taufiq 2023), which found that leverage affects profitability. In contrast, research by (Hamidah 2016), (Makhdalena 2018), (Ramadhanti, Amaliawiati, and Nugraha 2021), and (Handayani, Indarto, and Santoso 2022) found that leverage does not affect profitability. Additionally, the study by (Suhendry, Toni, and Simorangkir 2021) found that profitability can mediate the relationship between leverage and firm value, while the research by (Ripaluddin, Pasulu, and Taufiq 2023) found that profitability does not mediate the relationship between leverage and firm value.

The relationship between firm size and firm value through profitability is supported by research findings from (Hirdinis 2019), (Natsir and Yusbardini

2020), and (Atiningsih and Izzaty 2021), which indicate that firm size affects profitability. In contrast, (Tui et al. 2017) found that firm size does not influence profitability. Subsequent studies by Natsir and Yusbardini (2020) and (Atiningsih and Izzaty 2021) found that profitability can mediate the effect of firm size on firm value. Meanwhile, (Hirdinis 2019) found that profitability does not mediate the relationship between firm size and firm value.

This study examines the impact of liquidity, leverage, and firm size on firm value with profitability, measured through Return on Assets (ROA), as a mediating variable, and has yielded varied findings. Some studies found that ROA can mediate the effect of liquidity on firm value, as reported by (Putro and Risman 2021). However, other studies showed different results, such as the research conducted by (Handayani, Indarto, and Santoso 2022), which concluded that profitability does not mediate the effect of liquidity on firm value. Similarly, in the context of leverage, research by (Suhendry, Toni, and Simorangkir 2021) indicates that ROA can mediate the effect of leverage on firm value, while the study by (Ripaluddin, Pasulu, and Taufiq 2023) states otherwise. The inconsistency of these results creates a gap that highlights the need for further studies to clarify the role of ROA as an effective mediator in this model.

The novelty of this research lies in the comprehensive approach used to analyze the role of ROA as a mediating variable in the effects of liquidity, leverage, and firm size on firm value. While most previous studies have tended to examine these variables separately or have focused only on their direct effects on firm value, this study offers an integrated approach by evaluating all three variables simultaneously. This provides a new perspective that enriches the academic literature and generates deeper insights into the mediating role of ROA in enhancing firm value.

This research is highly urgent as it aims to address the inconsistencies in the results of previous studies. Considering that firm value is a primary reference for investors in making investment decisions, understanding the role of profitability as a mediating variable will provide practical guidance for companies in enhancing investor confidence and attractiveness. Thus, this study is relevant for financial managers in their efforts to maximize firm value through better management of liquidity, leverage, and firm size.

In terms of originality, this research offers a novel contribution by integrating these three variables into a single model and examining the effectiveness of profitability as a mediating factor. This study also utilizes more recent data and analysis methodologies tailored to the current economic conditions, making the results more relevant for practical guidance and corporate strategies.

The objective of this research is to examine and analyze whether ROA can mediate the effects of liquidity, leverage, and firm size on firm value, both directly and indirectly. Additionally, this study aims to comprehensively explain the extent to which these three variables influence firm value. The findings of this research are expected to contribute academically by enriching the literature on the role of profitability as a mediating variable. Practically, the results are anticipated to provide guidance for financial managers in making decisions related to liquidity management, leverage, and firm size, which ultimately can enhance profitability and firm value.

LITERATURE REVIEW

Signaling Theory

Signaling theory was proposed by Michael Spence in 1973, suggesting that asymmetric information between company managers and investors can be addressed through signals provided by management. In this context, companies use financial reports or strategic actions as signals to investors regarding the company's condition and prospects. (Brigham and Houston 2020) explain that the information conveyed by management through financial statements, dividend policies, or investment decisions can serve as signals about the company's status and future potential to external parties. These signals help reduce the information asymmetry between managers and investors, assisting investors in making better investment decisions. Actions that are perceived as positive signals, such as increased profits or the announcement of new projects, can enhance investor confidence and have a positive impact on firm value.

Firm Value

Firm value represents the market's perception of the overall performance and future prospects of the company. According to (Brigham and Houston 2020), firm value can be defined as the market value assessed through stock price and the total equity held by shareholders. Firm value is crucial because the primary objective of financial management is to maximize it for the benefit of shareholders. A common measure used to assess firm value is Tobin's Q, which is the ratio of the company's market value of assets (market capitalization) to the replacement cost of the company's assets.

Profitability

Profitability is a measure of a company's performance in generating profit relative to its sales, assets, or equity. According to (Brigham and Houston 2020), profitability is a key indicator used to assess how efficiently a company's management utilizes its resources to generate earnings. High profitability indicates that the company has successfully managed its assets efficiently to generate profits, which is a sign of good financial performance. Profitability is also often used as a mediating variable that strengthens the relationship between other financial factors and company value, as good performance typically enhances investor confidence.

Liquidity

Liquidity refers to a company's ability to meet its short-term obligations as they come due without facing financial difficulties. According to (Brigham and Houston 2020), liquidity is crucial for a company as it reflects the ability to convert current assets into cash to fulfill short-term liabilities. High liquidity can reduce the risk of bankruptcy because the company can meet its short-term obligations. However, excessive liquidity may also indicate inefficient cash management, as an excess of current assets can decrease profitability levels.

Leverage

Leverage refers to the use of debt financing to enhance the potential return to a company's shareholders. According to (Brigham and Houston 2020), leverage reflects the extent to which a company utilizes debt in its capital structure, which can increase both risk and potential returns for shareholders. Leverage can provide benefits in the form of increased profits if the investments financed with debt yield returns greater than the cost of the debt itself. However, leverage also carries risks, particularly financial risk, because the higher the debt, the greater the obligation for interest and principal repayments that the company must fulfill. If a company fails to meet these obligations, it could lead to bankruptcy. Companies with high leverage have more debt compared to equity, which can provide tax benefits but also heightens financial risk. High leverage can increase the value of a company due to tax advantages, but if it becomes excessive, it may raise the risk of bankruptcy.

Firm Size

Firm size is an important factor in financial analysis and management strategy. According to (Brigham and Houston 2020), firm size, measured by total assets or sales, reflects the capacity and stability of a company in its operations and can influence market perceptions. Firm size is often associated with the total assets owned, which reflects the magnitude of resources available to support business operations and expansion. Generally, the larger the company size, the greater its capacity to obtain financing from capital markets, whether through equity or debt.

Hypothesis Development

In signaling theory, high liquidity can serve as a positive signal for investors, indicating that the company has a good ability to meet its short-term obligations and manage cash efficiently, which in turn can enhance investor confidence and create opportunities for increased profitability. (Brigham and Houston 2020) explain that adequate liquidity allows a company to take advantage of profitable investment opportunities and avoid costs associated with late payments or reliance on short-term funding sources. Several previous studies conducted by (Tahu and Susilo 2017), (Tui et al. 2017), (Nugraha et al. 2020), (Suhendry, Toni, and Simorangkir 2021), (Ripaluddin, Pasulu, and Taufiq 2023), and (Nguyen, Le, and Nguyen 2024) found that liquidity influences profitability. Companies with adequate cash reserves tend to be more stable and flexible in investing in productive assets, which ultimately enhances their financial performance. This indicates that good liquidity management not only maintains financial stability but can also act as a catalyst in improving the company's profitability. Therefore, it can be concluded that the hypothesis in this study is: H1: Liquidity has a effects on profitability.

Leverage refers to the use of debt by a company in its capital structure, which can signal management's confidence in the company's ability to generate sufficient profits to meet its debt obligations. Based on Signaling Theory, an optimal level of leverage is considered a positive signal for investors, indicating that the company is willing to take on debt because it expects its future performance to cover the associated costs. According to (Brigham and Houston 2020), leverage can enhance the value of a company since debt is often a cheaper source of funding compared to equity, and the interest on debt can provide tax benefits. Research by (Nugraha et al. 2020), (Bintara 2020), (Suhendry, Toni, and Simorangkir 2021), and (Ripaluddin, Pasulu, and Taufiq 2023) found that leverage affects profitability. Therefore, it can be concluded that the hypothesis in this study is: H_2: Leverage has a effects on profitability.

Firm size is often measured by total assets or revenue, reflecting its capacity and operational scale. Larger companies generally have more resources, better access to markets, and the ability to take advantage of economies of scale. These advantages allow for a reduction in unit costs and an increase in operational efficiency, which in turn contributes to enhanced profitability. Furthermore, large companies typically have stronger bargaining power with suppliers and customers, which can result in higher profit margins and a reinforced market position. Additionally, company size is often seen as an indicator of financial strength and stability. From the perspective of Signaling Theory, a large size serves as a positive signal to investors and stakeholders, as it reflects quality and promising profitability potential. According to (Brigham and Houston 2020), larger companies usually have better access to various resources, such as funding, technology, and skilled labor, all of which support operational efficiency and facilitate higher profitability. Research by (Hirdinis 2019), (Natsir and Yusbardini 2020), and (Atiningsih and Izzaty 2021) found that company size affects profitability. Thus, the hypothesis in this study is: H_3: Firm size has a effects on profitability.

Liquidity refers to a company's ability to meet its short-term obligations and is often viewed as a positive signal regarding the company's financial stability in the eyes of investors. According to Signaling Theory, companies with good liquidity levels send signals indicating that they have a solid financial capacity to handle their obligations, which can enhance market perception of the company's value. According to (Brigham and Houston 2020), adequate liquidity enables companies to maintain operational flexibility and avoid the risk of financial distress, ultimately increasing the company's attractiveness to investors. Research by (Kahfi, Pratomo, and Aminah 2018), (Hapsoro and Falih 2020), (Reschiwati, Syahdina, and Handayani 2020), (Darmawan et al. 2020), (Sari and Sedana 2020), (Jihadi et al. 2021), (Olivia and Wiksuana 2021), and (Ripaluddin, Pasulu, and Taufiq 2023) found that liquidity has a effects on firm value. Companies with high liquidity are perceived as more stable and attractive to investors, thereby increasing their market value. Thus, the hypothesis in this study is: H_4: Liquidity has a effects on firm value.

Leverage refers to a company's use of debt within its capital structure, which can signal management's confidence in the company's ability to generate sufficient profits to meet its debt obligations. According to Signaling Theory, an optimal level of leverage is considered a positive signal for investors, indicating that the company is willing to take on debt because it expects its future performance to cover the cost of that debt. According to (Brigham and Houston 2020), leverage can enhance company value because debt is often a cheaper source of financing compared to equity, and the interest on debt can also provide tax benefits. Several studies, including those by (Fosu et al. 2016), (Kahfi, Pratomo, and Aminah 2018), (Lestari 2023), (Simorangkir 2019), (Jihadi et al. 2021), (Wahid, Ambarwati, and Satmoko 2022), (Ripaluddin, Pasulu, and Taufiq 2023), (Yuliyanti et al. 2023), and (Zulfa, Azam, and Bandono 2024), have found that leverage has a effects firm value. Optimal leverage has the potential to increase firm value through financing efficiency and the tax benefits obtained. Therefore, it can be concluded that the hypothesis in this study is: H_5: Leverage has a effects on firm value.

Firm size is often associated with company value, where larger companies are viewed as more stable and capable of facing higher business risks compared to smaller companies. Based on Signaling Theory, company size can serve as a positive signal to investors, indicating that the company has financial resilience and adequate resources to support long-term growth. According to (Brigham and Houston 2020), larger companies typically have better access to financing and business networks, enabling them to achieve greater economies of scale and improved operational efficiency, thus enhancing their competitiveness and value in the eyes of investors. Several studies have been conducted, including those by (Susanti and Restiana 2018), (Anggeriani, Fachrudin, and Silalahi 2018), (Hirdinis 2019), (Sugosha and Artini 2020), (Nugraha et al. 2020), (Reschiwati, Syahdina, and Handayani 2020), (Hapsoro and Falih 2020), (Natsir and Yusbardini 2020), (Nurwulandari, Wibowo, and Hasanudin 2021), (Atiningsih and Izzaty 2021), (Wahid, Ambarwati, and Satmoko 2022), (Lestari 2023), and (Zulfa, Azam, and Bandono 2024), which found that firm size has a effects on firm value. A larger company size can strengthen investors' perception of the company's strength and sustainability, ultimately increasing the market value of the company. Therefore, it can be concluded that the hypothesis in this study is: H_6: Firm size has a effects on firm value.

Profitability is a key factor that reflects a company's financial performance and is often used as an indicator of the company's ability to generate profits. Based on Signaling Theory, high profitability is considered a positive signal for investors as it reflects management efficiency and good growth prospects, ultimately enhancing the attractiveness and value of the company. According to (Brigham and Houston 2020), consistent profitability allows a company to strengthen its financial position, support expansion, and enhance flexibility in the face of market uncertainties, all of which contribute to an increase in company value. Several previous studies have been conducted by (Sucuahi and Cambarihan 2016), (Tui et al. 2017), (Rosikah et al. 2018), (Zuhroh 2019), (Dwiastuti and Dillak 2019), (Sari and Sedana 2020), (Darmawan et al. 2020), (Sugosha and Artini 2020), (Syamsudin et al. 2020), (Natsir and Yusbardini 2020), (Jihadi et al. 2021), (Yondrichs et al. 2021), (Olivia and Wiksuana 2021), (Suhendry, Toni, and Simorangkir 2021), (Atiningsih and Izzaty 2021), (Handayani, Indarto, and Santoso 2022), (Faradila and Effendi 2023), (Buti and Wiyarni 2023), (Lestari 2023), (Budiarti, Moeldjadi, and Wijayanti 2023), (Zulfa, Azam, and Bandono 2024), and (Yuliyanti et al. 2023), which found that profitability affects company value. High profitability is considered to strengthen investor confidence in the company's long-term potential, thereby increasing the company's market value. Therefore, it can be concluded that the hypothesis in this study is: H_7: Profitability has a effects on firm value.

Profitability is considered capable of mediating the effect of liquidity on firm value because companies with high liquidity have greater financial flexibility to fund operations and investments that support achieving higher profits. Based on Signaling Theory, companies that can maintain high liquidity send a signal of financial stability to investors, which can enhance positive perceptions of the company's profitability potential. According to (Brigham and Houston 2020), good liquidity can help companies maintain operational smoothness and capitalize on growth opportunities, which ultimately can enhance profitability. Research by

(Putro and Risman 2021) found that profitability is able to mediate the effect of liquidity on firm value. Good liquidity supports higher profitability, which ultimately increases the company's market value in the eyes of investors. Therefore, it can be concluded that the hypothesis in this study is: H_8: Profitability is capable of mediating the effect of liquidity on firm value.

Profitability is seen as capable of mediating the effect of leverage on company value because well-managed leverage can enhance a company's opportunities to generate higher profits, which subsequently contributes to an increase in company value. Based on Signaling Theory, the appropriate use of leverage demonstrates management's confidence in the company's future prospects, sending a positive signal to investors that the company can manage debt risk while generating stable profitability. According to (Brigham and Houston 2020), leverage can be an effective tool for increasing profits, provided that the company can manage debt costs and take advantage of the tax benefits derived from interest payments. Research by (Suhendry, Toni, and Simorangkir 2021) found that profitability is able to mediate the relationship between leverage and firm value. Proper leverage can enhance profitability, which ultimately strengthens the firm value in the eyes of investors. Therefore, it can be concluded that the hypothesis in this study is: H_9: Profitability is capable of mediating the effect of leverage on firm value.

Profitability is believed to be capable of mediating the effect of firm size on firm value, where larger company size often indicates the capacity to generate higher profits, which in turn enhances firm value. Based on Signaling Theory, larger companies can provide positive signals to investors regarding stability and growth potential, indicating that they possess competitive advantages and sufficient resources to achieve sustainable profitability. According to (Brigham and Houston 2020), larger companies are typically associated with higher operational efficiency and better access to funding sources, which can improve profitability. Subsequent research by (Natsir and Yusbardini 2020) and (Atiningsih and Izzaty 2021) found that profitability is able to mediate the effect of firm size on firm value. Larger firm size increases profitability, which ultimately enhances the company’s value in the eyes of investors. Therefore, it can be concluded that the hypothesis in this study is: H_{10}: Profitability is capable of mediating the effect of firm size on firm value.

METHOD

The data used in this study is secondary data obtained the Indonesia Stock Exchange (IDX) website and the websites of the sample companies. The sample used in this research consists of companies listed in the LQ45 Index for the period 2018-2022. The sampling technique employed is purposive sampling, with the following criteria for the companies:

Table 1: Sample Selection Criteria

No	Criteria	Quantity
1	Companies listed in the LQ45 Index for the period of 2018-2022	**71**
2	Companies that are continuously listed in the LQ45 Index for the period of 2018-2022	**(48)**
3	Companies that are part of the banking sector	**(5)**

4	Total sample of companies	**18**
5	Total observation periods	**5**
6	Total research sample: 5 per company × 18 periods	**90**

The study employs panel data analysis using EViews 13 software. This technique is appropriate as the data encompasses multiple companies (cross-sections) over several years (time series). Panel data analysis is utilized to control for unobserved variables, providing more efficient and unbiased estimates compared to separate cross-sectional or time series analyses.

Data analysis is performed using panel data in EViews 13, which includes multiple companies (cross-sections) over a defined time period (time series), resulting in more efficient estimates than those from separate cross-sectional or time series analyses. Before conducting regression tests, model selection is carried out using the Chow Test (to choose between the Fixed Effect Model (FEM) or Common Effect Model (CEM)), the Hausman Test (FEM vs. Random Effect Model (REM)), and the Lagrange Multiplier Test (REM vs. CEM).

In this study, firm value serves as the dependent variable, measured by Tobin's Q (the ratio of market value to book value of assets). Profitability is the mediating variable, measured by Return on Assets (ROA), which reflects the ability to generate profit. The independent variables include liquidity, measured by the Current Ratio (CR), indicating the ability to meet short-term obligations; leverage, measured by the Debt to Equity Ratio (DER), which shows the use of debt to finance assets; and firm size, measured by the natural logarithm of total assets.

RESULTS AND DISCUSSIONS

Descriptive Statistics

Based on purposive sampling, there are 18 companies that meet the criteria for this study, covering a total research period of 5 years, resulting in 90 observations. Below are the descriptive statistics for the research sample.

Table 1 Research Results

	CR	DER	SIZE	ROA	TOB_Q
Mean	2.069762	0.995962	31.74953	0.098193	2.370528
Median	1.793200	0.716950	31.73615	0.069050	1.328050
Maximum	5.654800	3.582700	33.65520	0.466600	18.35510
Minimum	0.335600	0.126200	30.42460	-0.057200	0.531200
Std. Dev.	1.222886	0.865086	0.858551	0.091028	3.136242
Observations	90	90	90	90	90

Source : secondary data (2024)

Based on Table 1, the minimum value for liquidity (Current Ratio) is 0.335600, observed in the company EXCL in 2019. The maximum value is 5.654800, recorded by the company INCO in 2022. The mean value is 2.069762, with a standard deviation of 1.222886. The minimum value for leverage (Debt to Equity Ratio) is 0.126200, shown by the company MNCN in 2022, while the maximum value is 3.582700, indicated by the company UNVR in 2022. The mean value for this variable is 0.995962, with a standard deviation of 0.865086.

Next, the minimum value for firm size is 30.42460, observed in the company MNCN in 2018. The maximum value is 33.65520, recorded by the company ASII in 2022. The mean value for this variable is 31.74953, with a standard deviation of 0.858551. The minimum value for profitability (ROA) is –0.057200, shown by the company EXCL in 2018. The maximum value is 0.466600, indicated by the company UNVR in 2018. The mean value for this variable is 0.098193, with a standard deviation of 0.091028. The minimum value for firm value (Tobin's Q) is 0.531200, observed in the company ANTM in 2021, while the maximum value is 18.35510, recorded by the company UNVR in 2018. The mean value for this variable is 2.370528, with a standard deviation of 3.136242.

Normality Test

Structure I : The Impact of Liquidity, Leverage, and Firm Size on Profitability

Table 4: Results of Normality Test for Structure I

Long-run Normality Test Date: 11/05/24 Time: 04:11 Sample: 2018 2022 Included observations: 90		
	Statistic	Prob.
Skewness	0.457209	0.323761
Skewness 3/5	2.651.624	0.004005
Kurtosis	1.378.591	0.084010
Normality	4.733.084	0.093805

Source : secondary data (2024)

Based on Table 4 above, it is noted that the probability value is 0.093805 (>0.05), which allows us to conclude that the data follows a normal distribution.

Structure II : The Impact of Liquidity, Leverage, Firm Size, and Profitability on Firm Value

Table 5: Results of Normality Test for Structure II

Long-run Normality Test		
Date: 11/05/24 Time: 04:11		
Sample: 2018 2022		
Included observations: 90		
	Statistic	Prob.
Skewness	-0.149635	0.559474
Skewness 3/5	1.724.144	0.042341
Kurtosis	1.647.849	0.049692
Normality	3.448.649	0.178293

Source : secondary data (2024)

Based on Table 5 above, it is noted that the probability value is 0.178293 (>0.05), which allows us to conclude that the data follows a normal distribution.

Model Selection Analysis

Structure I : The Impact of Liquidity, Leverage, and Firm Size on Profitability

Based on the Chow Test results, the Cross-section F value is 0.0000 < 0.05, indicating that the chosen model is the Fixed Effect Model. The Hausman Test results show that the Cross-section random value is 0.0005 < 0.05, confirming that the Fixed Effect Model is preferred. The Lagrange Multiplier Test, Breusch-Pagan, also yields a value of 0.0000 < 0.05, leading to the choice of the Random Effect Model. Therefore, it can be concluded that the best model for this study is the Fixed Effect Model.

Structure II : The Impact of Liquidity, Leverage, Firm Size, and Profitability on Firm Value

Similar to Structure I, the Chow Test results indicate a Cross-section F value of 0.0000 < 0.05, leading to the selection of the Fixed Effect Model. The Hausman Test results show a Cross-section random value of 0.0000 < 0.05, confirming the Fixed Effect Model. The Lagrange Multiplier Test also yields a value of 0.0000 < 0.05, supporting the Random Effect Model. Thus, the conclusion remains that the best model for this study is the Fixed Effect Model.

Panel Data Regression Analysis

Structure I : The Influence of Liquidity, Leverage, and Firm Size on Profitability

Table 2 Regression Test Structure I

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.414084	0.696202	-2.031140	0.0461
CR	0.013543	0.010871	1.245752	0.2171
DER	-0.078628	0.018517	-4.246255	0.0001
SIZE	0.049215	0.022228	2.214097	0.0301
	Effects Specification			
Cross-section fixed (dummy variables)				
R-squared	0.868238	Mean dependent var		0.098193
Adjusted R-squared	0.830046	S.D. dependent var		0.091028

Source : secondary data (2024)

Based on Table 2, the regression for Structure I is as follows:

ROA = -1.414084 + 0.013543*CR - 0.078628*DER + 0.049215*SIZE

The regression coefficient value of the liquidity measured by the current ratio is 0.013543 with a probability value of 0.2171 (> 0.05), so the liquidity has no effect on profitability. Based on these results, it can be concluded that H_1 is rejected.

The regression coefficient value of leverage measured by the debt to equity ratio is -0.078628 with a probability value of 0.0001 (<0.05), so leverage has an effect on profitability. Based on these results, it can be concluded that H_2 is accepted.

The regression coefficient value of company size followed by Size is 0.049215 with a probability value of 0.0301 (<0.05), so firm size has an effect on profitability. Based on these results, it can be concluded that H_3 is accepted.

Furthermore, the Adjusted R-squared value is 0.830046, which allows us to conclude that the influence of liquidity, leverage, and firm size on profitability accounts for 83.00%, while the remaining 17.00% is attributed to other factors.

Structure II : The Influence of Liquidity, Leverage, Firm Size, and Profitability on Firm Value

Table 3 Regression Test Structure II

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	31.74085	16.91184	1.876842	0.0648
CR	0.328991	0.259389	1.268330	0.2090
DER	-1.647843	0.490714	-3.358054	0.0013
SIZE	-0.925157	0.542815	-1.704370	0.0929
ROA	9.809679	2.840672	3.453295	0.0010
	Effects Specification			
Cross-section fixed (dummy variables)				
R-squared	0.939092	Mean dependent var		2.370528
Adjusted R-squared	0.920282	S.D. dependent var		3.136242

Source : secondary data (2024)

Based on Table 3, the regression for Structure II is as follows:

TOB_Q = 31.74085 + 0.328991*CR - 1.647843*DER -0.925157*SIZE + 9.809679*ROA

The regression coefficient value of the liquidity measured by the current ratio is 0.328991 with a probability value of 0.2090 (> 0.05), so the liquidity has no effect on firm value. Based on these results, it can be concluded that H_4 is rejected.

The regression coefficient value of leverage measured by the debt to equity ratio is -1.647843 with a probability value of 0.0013 (<0.05), so leverage has an effect on firm value. Based on these results, it can be concluded that H_5 is accepted.

The regression coefficient value of company size followed by Size is -0.925157 with a probability value of 0.0929 (>0.05), so firm size has no effect on firm value. Based on these results, it can be concluded that H_6 is accepted.

The regression coefficient value of profitability measured by the return on assets is 9.809679 with a probability value of 0.0013 (<0.05), so profitability has an effect on firm value. Based on these results, it can be concluded that H_7 is accepted..

Furthermore, the Adjusted R-squared value is 0.920282, indicating that the influence of liquidity, leverage, firm size, and profitability on firm value accounts for 92.03%, with the remaining 7.97% influenced by other factors.

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Sobel Test

Table 4 Results of the Sobel Test

	Test statistik	**Std. Error**	**p-value**
CR→ ROA→ Tob. Q	1,17186757	0,11336817	0,24125023
DER→ ROA→ Tob. Q	-2,67915963	0,28789454	0,00738072
SIZE→ ROA→ Tob. Q	1,86389404	0,25901867	0,06233659

Source : secondary data (2024)

From the results of the Sobel test, a *p*-value of 0.24125023 (>0.05) was obtained with a test statistic of 1.17186757 so that H_8 was rejected. Thus, it can be concluded that profitability is unable to mediate the effect of liquidity on firm value.

The Sobel test results show a p-value of 0.00738072 (< 0.05) with a test statistic of -2.67915963, leading to the acceptance of H_9. This concludes that profitability can mediate the effect of leverage on firm value.

The Sobel test results indicate a p-value of 0.06233659 (> 0.05) with a test statistic of 1.86389404, leading to the rejection of H_{10}. Thus, it can be concluded that profitability cannot mediate the effect of firm size on firm value.

Discussion

The Effect of Liquidity on Profitability

This study finds that liquidity, measured by the Current Ratio (CR), does not have a significant effect on profitability. This indicates that, although current assets are available to meet short-term obligations, this does not automatically lead to increased profits. According to Signaling Theory, high liquidity can send a positive signal to investors regarding the financial stability of the company; however, without productive utilization, its impact on profitability is limited. (Brigham and Houston 2020) support this view by stating that high liquidity is often maintained for security purposes, but if those funds are merely held or allocated to less productive activities, their influence on profitability remains minimal. In practice, many companies in the LQ45 index maintain high liquidity to face economic uncertainty, but uninvested current assets merely serve as reserves without making a significant contribution to profits. These findings align with previous research by (Krismunita and Imronudin 2021) and (Handayani, Indarto, and Santoso 2022), which found that liquidity does not significantly affect profitability. Thus, this finding reinforces the notion that liquidity, as measured by the CR, only provides limited benefits to profitability if not accompanied by effective asset utilization strategies.

The Effect of Leverage on Profitability

This study finds that leverage, measured by the Debt to Equity Ratio (DER), has a significant impact on profitability, indicating that appropriate use of debt within the capital structure can enhance profits. Based on Signaling Theory, optimal leverage can send a positive signal to investors that the company is confident in managing debt to maximize profitability. According to (Brigham and Houston 2020), well-managed leverage can provide tax benefits through the reduction of taxable income by interest expenses; however, excessive use of debt increases the risk of bankruptcy. In practice, companies in the LQ45 index often leverage debt to scale up operations and expand their markets, particularly when investment opportunities are high but internal resources are limited. When managed efficiently, leverage can enhance profitability; however, if not managed properly, the cost of debt can burden the company's profits. These results align with previous research conducted by (Nugraha et al. 2020), (Bintara 2020), (Suhendry, Toni, and Simorangkir 2021), and (Ripaluddin, Pasulu, and Taufiq 2023), which found that leverage has a effects on profitability. Properly managed DER allows companies to achieve financial gains without excessively increasing risk, making optimal leverage a strategic tool for boosting profitability with careful financial strategies.

The Effect of Firm Size on Profitability

This study finds that firm size, measured by the natural logarithm of total assets (Ln Total Assets), has an impact on profitability, indicating that larger companies tend to have higher profitability due to their broad operational scale and cost efficiency gained from economies of scale. Based on Signaling Theory, a larger firm size sends a positive signal to investors about stability and growth potential, which enhances confidence in the company's ability to generate profits. (Brigham and Houston 2020) explain that larger firms typically have better access to resources, such as funding, technology, and skilled labor, which supports operational efficiency and profitability. In practice, companies in the LQ45 index often leverage their substantial assets to strengthen market positions and pursue investment opportunities that are difficult for smaller firms to access. However, without efficient management, large size can become a burden, increasing costs and lowering profit margins. These findings align with previous research by (Hirdinis 2019), (Natsir and Yusbardini 2020), and (Atiningsih and Izzaty 2021), which found that firm size affects profitability, as larger firms can optimize their assets for productive activities and achieve higher profits.

The Effect of Liquidity on Firm Value

This study indicates that liquidity, measured by the Current Ratio (CR), does not impact firm value, suggesting that high liquidity does not automatically enhance the company's value in the eyes of investors. According to Signaling Theory, high liquidity should signal financial stability, but if current assets are not productively invested in high-return ventures, their impact on firm value remains limited. (Brigham and Houston 2020) also assert that excess liquidity may signal inefficient asset use, as liquid assets not allocated to productive investments will not directly contribute to increasing firm value. In practice, many companies in the LQ45 index maintain high liquidity as a reserve against economic uncertainty, but they tend not to use it for long-term value growth. These findings align with previous studies by (Tui et al. 2017), (Adiputra and Hermawan 2020), (Putro and Risman 2021), (Suhendry, Toni, and Simorangkir 2021), (Nurwulandari, Wibowo, and Hasanudin 2021), (Yondrichs et al. 2021), (Wahid, Ambarwati, and Satmoko 2022), (Handayani, Indarto, and Santoso 2022), (Budiarti, Moeldjadi, and Wijayanti 2023), (Yuliyanti et al. 2023), and (Zulfa, Azam, and Bandono 2024), which found that liquidity does not affect firm value, as high liquidity often serves only as a buffer without impact on firm value unless it is managed within a productive investment strategy.

The Effect of Leverage on Firm Value

This study finds that leverage, measured by the Debt to Equity Ratio (DER), impacts firm value, indicating that optimal debt usage can enhance firm value by expanding investment capacity without increasing equity. According to Signaling Theory, appropriate leverage sends a positive signal to investors that the company can manage debt to improve performance and value. (Brigham and Houston 2020) note that leverage can offer tax benefits through interest deductions; however, excessive debt increases bankruptcy risk, potentially reducing perceptions of firm value. In practice, LQ45 index companies often use leverage to strengthen capital and expand markets, increasing their attractiveness to investors. However, excessive leverage can be detrimental if debt burdens exceed returns, reducing profits and decreasing firm value. These findings are consistent with studies by (Fosu et al. 2016), (Kahfi, Pratomo, and Aminah 2018), (Lestari 2023), (Simorangkir 2019), (Jihadi et al. 2021), (Wahid, Ambarwati, and Satmoko 2022), (Ripaluddin, Pasulu, and Taufiq 2023), (Yuliyanti et al. 2023), and (Zulfa, Azam, and Bandono 2024), which found that leverage impacts firm value, as wisely managed leverage can increase firm value, while uncontrolled leverage threatens stability and firm value.

The Effect of Firm Size on Firm Value

The study results show that firm size, measured by the natural logarithm of total assets (Ln Total Assets), does not influence firm value, indicating that firm size is not always a primary indicator of firm value. In the context of signaling theory, large firms with more resources and stability do not necessarily provide a positive signal to investors, especially if they face managerial issues or operational inefficiencies. (Brigham and Houston 2020) note that in a competitive business environment, firm size alone is not the determining factor of value. These findings align with previous studies by (Tui et al. 2017), (Dwiastuti and Dillak 2019), (Adiputra and Hermawan 2020), (Nurwulandari, Wibowo, and Hasanudin 2021), (Handayani, Indarto, and Santoso 2022), (Yulandri, Hertina, and Asih 2023), and (Hechmi and Saanoun 2024), which found that firm size (SIZE) does not impact firm value. This also implies that while larger firms may hold more assets, it does not guarantee an increase in firm value. The findings emphasize the importance of effective management and the firm's ability to send positive signals to the market, rather than relying solely on large size as an indicator of performance and value.

The Effect of Profitability on Firm Value

The study results show that profitability, measured by Return on Assets (ROA), influences firm value, indicating that good financial performance can enhance investors' positive perception of firm value. In the framework of signaling theory, profitability serves as a positive signal indicating management's efficiency in generating profits from its assets, thereby increasing investor confidence. (Brigham and Houston 2020) explain that in a competitive business environment, investors tend to focus on financial performance as an indicator of growth potential, where strong profitability builds confidence in the firm's ability to expand. These findings are consistent with studies by (Sucuahi and Cambarihan 2016), (Tui et al. 2017), (Rosikah et al. 2018), (Zuhroh 2019), (Dwiastuti and Dillak 2019), (Sari and Sedana 2020), (Darmawan et al. 2020), (Sugosha and Artini 2020), (Syamsudin et al. 2020), (Natsir and Yusbardini 2020), (Jihadi et al. 2021), (Yondrichs et al. 2021), (Olivia and Wiksuana 2021), (Suhendry, Toni, and Simorangkir 2021), (Atiningsih and Izzaty 2021), (Handayani, Indarto, and Santoso 2022), (Faradila and Effendi 2023), (Buti and Wiyarni 2023), (Lestari 2023), (Budiarti, Moeldjadi, and Wijayanti 2023), (Zulfa, Azam, and Bandono 2024), and (Yulianti et al. 2024), which found that profitability influences firm value. This shows that high profitability, including ROA, contributes positively to firm value, underscoring the importance of profitability in attracting investor attention and trust, with implications for enhancing the firm's market value.

Profitability as a Mediator of the Effect of Liquidity on Firm Value

The research findings indicate that profitability does not mediate the effect of liquidity on firm value, suggesting that while liquidity is an important factor, profitability does not always act as a connecting element that strengthens this relationship. In the context of signaling theory, good liquidity can provide a positive signal regarding the financial health of a company; however, if profitability is low, investors may remain skeptical about the company's long-term growth prospects, thereby hindering the improvement of firm value. (Brigham and Houston 2020) state that firms with high liquidity but low profitability are often perceived as higher-risk, which can reduce their attractiveness to investors. These findings align with studies by (Handayani, Indarto, and Santoso 2022) and (Ripaluddin, Pasulu, and Taufiq 2023), who also found that profitability does not mediate the effect of liquidity on firm value. Liquidity may directly impact firm value without needing profitability as a mediator, highlighting that a company may have strong cash flow yet be inefficient at generating profit. These results underscore the complexity of the relationship between liquidity, profitability, and firm value, where other factors may play a more dominant role in shaping investor perceptions.

Profitability as a Mediator of the Effect of Leverage on Firm Value

The research findings show that profitability successfully mediates the effect of leverage on firm value, indicating that good profitability performance can enhance the positive impact of leverage on firm value. From the perspective of signaling theory, the use of debt can signal that the company has opportunities to increase profitability through debt-financed investments; if the company can generate sufficient profits, profitability acts as a mediator that strengthens the positive signal about the company's value. (Brigham and Houston 2020) emphasize that as long as a company can generate profit to cover debt costs, leveraging can boost shareholder returns. These findings are consistent with research by (Suhendry, Toni, and Simorangkir 2021), which found that profitability mediates the relationship between leverage and firm value. Profitability plays a critical role in mediating the link between leverage and firm value, where companies that efficiently manage debt and generate profits tend to have a higher perceived value among investors. This shows that profitability not only reflects the company's financial health but also enhances investor perceptions of the risks and potential returns of debt usage.

Profitability as a Mediator of the Effect of Firm Size on Firm Value

The research findings indicate that profitability does not mediate the effect of firm size on firm value. This suggests that while firm size can affect firm value, profitability performance does not act as a connecting factor that strengthens this relationship. In signaling theory terms, large companies often signal stability and business continuity to investors; however, firm size alone does not guarantee strong profitability. (Brigham and Houston 2020) explain that, in practice, large companies with extensive assets are not necessarily efficient in resource management, which can lead to low profitability. These findings align with the research by (Hirdinis 2019), who found that profitability does not mediate the relationship between firm size and firm value. This underscores the complexity of the relationship between firm size, profitability, and firm value, where profitability may not always serve as a determining factor in the context of firm size.

CONCLUSIONS

This study contributes to the literature on the relationships among liquidity, leverage, firm size, profitability, and firm value. The results indicate that profitability does not mediate the effects of liquidity and firm size on firm value but can mediate the effect of leverage on firm value, providing new insights into the internal mechanisms of companies within the context of the Indonesian capital market, specifically for firms listed in the LQ45 index. Theoretically, these findings highlight the need to consider mediating factors in models linking capital structure and firm performance, as direct effects This research also offers insights that can be utilized by company management, investors, and policymakers. The findings underscore the importance of prudent leverage management, as high leverage without adequate profitability can decrease firm value. Investors may also use this information to be more cautious when evaluating companies with high leverage but low profitability.

The study uses data from companies within the LQ45 index for the period 2018-2022. This limitation may restrict the generalizability of the results to all companies listed on the Indonesia Stock Exchange (IDX) or companies in other sectors. Although this research considers several important variables such as liquidity, leverage, firm size, and profitability, many other variables could influence firm value, such as innovation, risk management, or corporate governance quality, which were not included in this study's model. The research employs panel data analysis with a Fixed Effect Model. While this method is suitable for panel data, it may not fully capture all dynamics occurring within companies, especially those related to external factors such as macroeconomic conditions or regulatory changes.

Future researchers could expand the sample to include companies from various sectors and extend the study period to see if these findings hold consistent over a longer timeframe and across different sectors. Additionally, incorporating additional variables such as risk management or corporate governance could help examine how these factors interact with liquidity, leverage, and firm size in influencing firm value. Future research could also employ alternative methodological approaches, such as path analysis or structural equation modeling (SEM), to test more complex relationships among the studied variables.

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Bukti Konfirmasi Resubmit untuk Review dan Artikel yang Perlu Direview
26 Nopember 2024

Gmail

Adi Indra <adindr@gmail.com>

[jas] Editor Decision

Zakaria Batubara <jurnal.stiesyariahbks@gmail.com> 26 November 2024 pukul 10.00
Kepada: Ady Inrawan <adindr@gmail.com>, Darwin Lie <liedarwin989@gmail.com>

Ady Inrawan, Darwin Lie:

We have reached a decision regarding your submission to JAS (Jurnal Akuntansi Syariah), "THE ROLE OF PROFITABILITY IN MEDIATING DETERMINANTS OF FIRM VALUE".

Our decision is to: Resubmit for Review*

Zakaria Batubara
Sekolah Tinggi Ilmu Ekonomi (STIE) Syariah Bengkalis

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Notifications

[jas] Editor Decision

2024-11-26 10:00 AM

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JAS (Jurnal Akuntansi Syariah)

THE ROLE OF PROFITABILITY IN MEDIATING DETERMINANTS OF FIRM VALUE

ABSTRACT

This study aims to analyze the role of profitability in mediating the relationship between liquidity, leverage, and firm size in relation to firm value. The data used in this study are secondary data obtained from the Indonesia Stock Exchange websites. The population consists of 71 companies listed in the LQ45 index for the period 2018-2022. The study sample includes 18 non-bank companies within the LQ45 index, selected through purposive sampling, yielding a total of 90 observations over five years. Data analysis was conducted using panel data with EViews 13 software. model selection was carried out through the Chow Test, Hausman Test, and Lagrange Multiplier Test. The results indicate that liquidity has no effect on profitability, whereas leverage and firm size significantly impact profitability. Furthermore, leverage influences firm value, while liquidity and firm size show no significant effect on firm value. Profitability does not mediate the effect of liquidity and firm size on firm value but does mediate the effect of leverage on firm value. Theoretically, this research complements previous theories and serves as a reference for future studies. Practically, investors can utilize this information to exercise caution when assessing companies with high leverage levels but low profitability.

Keywords: Profitability, Liquidity, Leverage, Firm Size, Firm Value.

INTRODUCTION

Firm value is one of the primary indicators used by investors to assess a company's performance and future prospects. High firm value reflects investor confidence in the company's ability to generate profits and sustain itself over the long term. According to (Anggeriani, Fachrudin, and Silalahi 2018), maximizing firm value is crucial for a company, as it also maximizes shareholder wealth, which is the primary objective of a business. Numerous studies have examined factors affecting firm value, yet their findings have been inconsistent. Factors such as liquidity, leverage, firm size, and profitability can influence firm value.

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High liquidity signals to investors that the company has sound financial health and a low risk of bankruptcy. However, excessive liquidity may also indicate that a company is not optimally utilizing its financial resources. Several studies, including (Kahfi, Pratomo, and Aminah 2018), (Hapsoro and Falih 2020), (Reschiwati, Syahdina, and Handayani 2020), (Darmawan et al. 2020), (Sari and Sedana 2020), (Jihadi et al. 2021), (Olivia and Wiksuana 2021), and (Ripaluddin, Pasulu, and Taufiq 2023) liquidity has a positive effect on firm value. In contrast, studies by (Tui et al. 2017), (Adiputra and Hermawan 2020), (Putro and Risman 2021), (Suhendry, Toni, and Simorangkir 2021), (Nurwulandari, Wibowo, and Hasanudin 2021), (Yondrichs et al. 2021), (Wahid, Ambarwati, and Satmoko 2022), (Handayani, Indarto, and Santoso 2022), (Budiarti, Moeldjadi, and Wijayanti 2023), (Yuliyanti et al. 2023), dan (Zulfa, Azam, and Bandono 2024) indicate that liquidity (CR) does not affect firm value.

The second factor affecting firm value is leverage. The leverage ratio is used to measure the extent to which a company's activities are financed by debt, including both short-term and long-term debt. A higher leverage ratio indicates a greater level of dependence on external parties (creditors) and a larger amount of interest expenses that the company must pay. Leverage reflects how much debt a company uses in its capital structure. When used appropriately, debt can provide tax benefits and increase earnings per share. However, excessive debt can lead to a higher risk of bankruptcy, which may diminish firm value. Several studies have been conducted, including those by (Fosu et al. 2016), (Kahfi, Pratomo, and Aminah 2018), (Lestari 2023), (Simorangkir 2019), (Jihadi et al. 2021), (Wahid, Ambarwati, and Satmoko 2022), (Ripaluddin, Pasulu, and Taufiq 2023), (Yuliyanti et al. 2023), and (Zulfa, Azam, and Bandono 2024), which found that leverage significantly affects firm value. In contrast, research by (Dwiastuti and Dillak 2019), (Suhendry, Toni, and Simorangkir 2021), (Almomani et al. 2022), (Handayani, Indarto, and Santoso 2022), (Yulandri, Hertina, and Asih 2023), and (Habakkuk, Nduati, and Wang'ombe 2023) found that leverage does not affect firm value.

Firm size is also a significant factor in determining firm value. Larger companies typically have better access to resources and capital markets, which can help them maintain stable performance and enhance firm value. However, company size can also lead to inefficiencies that ultimately negatively impact firm value. Several studies have been conducted, including those by (Susanti and Restiana 2018), (Anggeriani, Fachrudin, and Silalahi 2018), (Hirdinis 2019), (Sugosha and Artini 2020), (Nugraha et al. 2020), (Reschiwati, Syahdina, and Handayani 2020), (Hapsoro and Falih 2020), (Natsir and Yusbardini 2020), (Nurwulandari, Wibowo, and Hasanudin 2021), (Atiningsih and Izzaty 2021), (Wahid, Ambarwati, and Satmoko 2022), (Lestari 2023), and (Zulfa, Azam, and Bandono 2024), which found that firm size has a effects on firm value. In contrast, research by (Tui et al. 2017), (Dwiastuti and Dillak 2019), (Adiputra and Hermawan 2020), (Nurwulandari, Wibowo, and Hasanudin 2021), (Handayani, Indarto, and Santoso 2022), (Yulandri, Hertina, and Asih 2023), and (Hechmi and Saanoun 2024) found that firm size (SIZE) does not affect firm value.

High profitability can enhance investor confidence, which in turn can increase firm value. Profitability is the end result of a series of policies and decisions made by the company (Brigham and Houston 2020). Several previous studies have been conducted, including those by (Sucuahi and Cambarihan 2016), (Tui et al. 2017), (Rosikah et al. 2018), (Zuhroh 2019), (Dwiastuti and Dillak 2019), (Sari and Sedana 2020), (Darmawan et al. 2020), (Sugosha and Artini 2020), (Syamsudin et al. 2020), (Natsir and Yusbardini 2020), (Jihadi et al. 2021), (Yondrichs et al. 2021), (Olivia and Wiksuana 2021), (Suhendry, Toni, and Simorangkir 2021), (Atiningsih and Izzaty 2021), (Handayani, Indarto, and Santoso 2022), (Faradila and Effendi 2023), (Buti and Wiyarni 2023), (Lestari 2023), (Budiarti, Moeldjadi, and Wijayanti 2023), (Zulfa, Azam, and Bandono 2024), and (Yulianti et al. 2024), which found that profitability affects firm value. In contrast, research conducted by (Astuti, Wahyudi, and Mawardi 2018), (Reschiwati, Syahdina, and Handayani 2020), (Hapsoro and Falih 2020), (Nurwulandari, Wibowo, and Hasanudin 2021), (Ripaluddin, Pasulu, and Taufiq

2023), and (Yuliyanti et al. 2023) found that profitability does not affect firm value.

Furthermore, profitability, which reflects a company's ability to generate profits, is considered a key factor that mediates the relationship between liquidity, leverage, and firm size on firm value. The liquidity of a company has an impact on its value, both directly and through profitability as a mediator. Adequate liquidity enables a company to meet its short-term obligations, providing confidence to investors about the company's financial stability, which can enhance firm value. However, high liquidity also needs to be balanced with effective management to avoid hindering asset productivity. With maintained liquidity, the company can operate efficiently, supporting an increase in profitability. High profitability indicates optimal company performance, thus enhancing its attractiveness to investors and ultimately increasing firm value. Several previous studies have been conducted, including those by (Tahu and Susilo 2017), (Tui et al. 2017), (Nugraha et al. 2020), (Bintara 2020), (Suhendry, Toni, and Simorangkir 2021), (Ripaluddin, Pasulu, and Taufiq 2023) and (Nguyen, Le, and Nguyen 2024), which found that liquidity affects profitability. In contrast, research conducted by (Krismunita and Imronudin 2021) and (Handayani, Indarto, and Santoso 2022) found that liquidity does not affect profitability. Further research by (Putro and Risman 2021) found that profitability can mediate the effect of liquidity on firm value. However, the studies by (Handayani, Indarto, and Santoso 2022) and (Ripaluddin, Pasulu, and Taufiq 2023) found that profitability is not capable of mediating the effect of liquidity on firm value.

Furthermore, a company's leverage has an important relationship with firm value, particularly when influenced by the mediating role of profitability. Optimal use of leverage allows a company to finance investments without sacrificing equity, thereby increasing potential profits and growth. However, high leverage also increases financial risk and interest costs, which can reduce net income. In this context, profitability mediates the relationship by demonstrating the company's effectiveness in managing debt to generate profits. If a company can efficiently use leverage to enhance profitability, it will attract investor interest and increase firm value. Conversely, if leverage fails to improve profitability, the financial risks borne by the company may negatively impact its value. Several previous studies have been conducted, including those by (Nugraha et al. 2020), (Bintara 2020), (Suhendry, Toni, and Simorangkir 2021), and (Ripaluddin, Pasulu, and Taufiq 2023), which found that leverage affects profitability. In contrast, research by (Hamidah 2016), (Makhdalena 2018), (Ramadhanti, Amaliawiati, and Nugraha 2021), and (Handayani, Indarto, and Santoso 2022) found that leverage does not affect profitability. Additionally, the study by (Suhendry, Toni, and Simorangkir 2021) found that profitability can mediate the relationship between leverage and firm value, while the research by (Ripaluddin, Pasulu, and Taufiq 2023) found that profitability does not mediate the relationship between leverage and firm value.

The relationship between firm size and firm value through profitability is supported by research findings from (Hirdinis 2019), (Natsir and Yusbardini 2020), and (Atiningsih and Izzaty 2021), which indicate that firm size affects profitability. In contrast, (Tui et al. 2017) found that firm size does not influence profitability. Subsequent studies by Natsir and Yusbardini (2020) and (Atiningsih

and Izzaty 2021) found that profitability can mediate the effect of firm size on firm value. Meanwhile, (Hirdinis 2019) found that profitability does not mediate the relationship between firm size and firm value.

This study examines the impact of liquidity, leverage, and firm size on firm value with profitability, measured through Return on Assets (ROA), as a mediating variable, and has yielded varied findings. Some studies found that ROA can mediate the effect of liquidity on firm value, as reported by (Putro and Risman 2021). However, other studies showed different results, such as the research conducted by (Handayani, Indarto, and Santoso 2022), which concluded that profitability does not mediate the effect of liquidity on firm value. Similarly, in the context of leverage, research by (Suhendry, Toni, and Simorangkir 2021) indicates that ROA can mediate the effect of leverage on firm value, while the study by (Ripaluddin, Pasulu, and Taufiq 2023) states otherwise. The inconsistency of these results creates a gap that highlights the need for further studies to clarify the role of ROA as an effective mediator in this model.

The novelty of this research lies in the comprehensive approach used to analyze the role of ROA as a mediating variable in the effects of liquidity, leverage, and firm size on firm value. While most previous studies have tended to examine these variables separately or have focused only on their direct effects on firm value, this study offers an integrated approach by evaluating all three variables simultaneously. This provides a new perspective that enriches the academic literature and generates deeper insights into the mediating role of ROA in enhancing firm value.

This research is highly urgent as it aims to address the inconsistencies in the results of previous studies. Considering that firm value is a primary reference for investors in making investment decisions, understanding the role of profitability as a mediating variable will provide practical guidance for companies in enhancing investor confidence and attractiveness. Thus, this study is relevant for financial managers in their efforts to maximize firm value through better management of liquidity, leverage, and firm size.

In terms of originality, this research offers a novel contribution by integrating these three variables into a single model and examining the effectiveness of profitability as a mediating factor. This study also utilizes more recent data and analysis methodologies tailored to the current economic conditions, making the results more relevant for practical guidance and corporate strategies.

The objective of this research is to examine and analyze whether ROA can mediate the effects of liquidity, leverage, and firm size on firm value, both directly and indirectly. Additionally, this study aims to comprehensively explain the extent to which these three variables influence firm value. The findings of this research are expected to contribute academically by enriching the literature on the role of profitability as a mediating variable. Practically, the results are anticipated to provide guidance for financial managers in making decisions related to liquidity management, leverage, and firm size, which ultimately can enhance profitability and firm value.

LITERATURE REVIEW

Signaling Theory

Signaling theory was proposed by Michael Spence in 1973, suggesting that asymmetric information between company managers and investors can be addressed through signals provided by management. In this context, companies use financial reports or strategic actions as signals to investors regarding the company's condition and prospects. (Brigham and Houston 2020) explain that the information conveyed by management through financial statements, dividend policies, or investment decisions can serve as signals about the company's status and future potential to external parties. These signals help reduce the information asymmetry between managers and investors, assisting investors in making better investment decisions. Actions that are perceived as positive signals, such as increased profits or the announcement of new projects, can enhance investor confidence and have a positive impact on firm value.

Firm Value

Firm value represents the market's perception of the overall performance and future prospects of the company. According to (Brigham and Houston 2020), firm value can be defined as the market value assessed through stock price and the total equity held by shareholders. Firm value is crucial because the primary objective of financial management is to maximize it for the benefit of shareholders. A common measure used to assess firm value is Tobin's Q, which is the ratio of the company's market value of assets (market capitalization) to the replacement cost of the company's assets.

Profitability

Profitability is a measure of a company's performance in generating profit relative to its sales, assets, or equity. According to (Brigham and Houston 2020), profitability is a key indicator used to assess how efficiently a company's management utilizes its resources to generate earnings. High profitability indicates that the company has successfully managed its assets efficiently to generate profits, which is a sign of good financial performance. Profitability is also often used as a mediating variable that strengthens the relationship between other financial factors and company value, as good performance typically enhances investor confidence.

Liquidity

Liquidity refers to a company's ability to meet its short-term obligations as they come due without facing financial difficulties. According to (Brigham and Houston 2020), liquidity is crucial for a company as it reflects the ability to convert current assets into cash to fulfill short-term liabilities. High liquidity can reduce the risk of bankruptcy because the company can meet its short-term obligations. However, excessive liquidity may also indicate inefficient cash management, as an excess of current assets can decrease profitability levels.

Leverage

Leverage refers to the use of debt financing to enhance the potential return to a company's shareholders. According to (Brigham and Houston 2020), leverage reflects the extent to which a company utilizes debt in its capital structure, which can increase both risk and potential returns for shareholders. Leverage can provide benefits in the form of increased profits if the investments financed with debt yield returns greater than the cost of the debt itself. However, leverage also carries risks, particularly financial risk, because the higher the debt, the greater the obligation for interest and principal repayments that the company must fulfill. If a company fails to meet these obligations, it could lead to bankruptcy. Companies with high leverage have more debt compared to equity, which can provide tax benefits but also heightens financial risk. High leverage can increase the value of a company due to tax advantages, but if it becomes excessive, it may raise the risk of bankruptcy.

Firm Size

Firm size is an important factor in financial analysis and management strategy. According to (Brigham and Houston 2020), firm size, measured by total assets or sales, reflects the capacity and stability of a company in its operations and can influence market perceptions. Firm size is often associated with the total assets owned, which reflects the magnitude of resources available to support business operations and expansion. Generally, the larger the company size, the greater its capacity to obtain financing from capital markets, whether through equity or debt.

Hypothesis Development

In signaling theory, high liquidity can serve as a positive signal for investors, indicating that the company has a good ability to meet its short-term obligations and manage cash efficiently, which in turn can enhance investor confidence and create opportunities for increased profitability. (Brigham and Houston 2020) explain that adequate liquidity allows a company to take advantage of profitable investment opportunities and avoid costs associated with late payments or reliance on short-term funding sources. Several previous studies conducted by (Tahu and Susilo 2017), (Tui et al. 2017), (Nugraha et al. 2020), (Suhendry, Toni, and Simorangkir 2021), (Ripaluddin, Pasulu, and Taufiq 2023), and (Nguyen, Le, and Nguyen 2024) found that liquidity influences profitability. Companies with adequate cash reserves tend to be more stable and flexible in investing in productive assets, which ultimately enhances their financial performance. This indicates that good liquidity management not only maintains financial stability but can also act as a catalyst in improving the company's profitability. Therefore, it can be concluded that the hypothesis in this study is: H1: Liquidity has a effects on profitability.

Comment [A2]: Please make sure the direction of the influence, positive or negative.

Comment [A3]: Positive or negative?

Leverage refers to the use of debt by a company in its capital structure, which can signal management's confidence in the company's ability to generate sufficient profits to meet its debt obligations. Based on Signaling Theory, an optimal level of leverage is considered a positive signal for investors, indicating that the company is willing to take on debt because it expects its future performance to cover the associated costs. According to (Brigham and Houston 2020), leverage can enhance the value of a company since debt is often a cheaper source of funding compared to equity, and the interest on debt can provide tax benefits. Research by (Nugraha et al. 2020), (Bintara 2020), (Suhendry, Toni, and Simorangkir 2021), and (Ripaluddin, Pasulu, and Taufiq 2023) found that leverage affects profitability. Therefore, it can be concluded that the hypothesis in this study is: H_2: Leverage has a effects on profitability.

Comment [A4]: Please make sure the direction of the influence, positive or negative.

Comment [A5]: Positive or negative?

Firm size is often measured by total assets or revenue, reflecting its capacity and operational scale. Larger companies generally have more resources, better access to markets, and the ability to take advantage of economies of scale. These advantages allow for a reduction in unit costs and an increase in operational efficiency, which in turn contributes to enhanced profitability. Furthermore, large companies typically have stronger bargaining power with suppliers and customers, which can result in higher profit margins and a reinforced market position. Additionally, company size is often seen as an indicator of financial strength and stability. From the perspective of Signaling Theory, a large size serves as a positive signal to investors and stakeholders, as it reflects quality and promising profitability potential. According to (Brigham and Houston 2020), larger companies usually have better access to various resources, such as funding, technology, and skilled labor, all of which support operational efficiency and facilitate higher profitability. Research by (Hirdinis 2019), (Natsir and Yusbardini 2020), and (Atiningsih and Izzaty 2021) found that company size affects profitability. Thus, the hypothesis in this study is: H_3: Firm size has a effects on profitability.

Comment [A6]: Please make sure the direction of the influence, positive or negative.

Comment [A7]: Positive or negative?

Liquidity refers to a company's ability to meet its short-term obligations and is often viewed as a positive signal regarding the company's financial stability in the eyes of investors. According to Signaling Theory, companies with good liquidity levels send signals indicating that they have a solid financial capacity to handle their obligations, which can enhance market perception of the company's value. According to (Brigham and Houston 2020), adequate liquidity enables companies to maintain operational flexibility and avoid the risk of financial distress, ultimately increasing the company's attractiveness to investors. Research by (Kahfi, Pratomo, and Aminah 2018), (Hapsoro and Falih 2020), (Reschiwati, Syahdina, and Handayani 2020), (Darmawan et al. 2020), (Sari and Sedana 2020), (Jihadi et al. 2021), (Olivia and Wiksuana 2021), and (Ripaluddin, Pasulu, and Taufiq 2023) found that liquidity has a effects on firm value. Companies with high liquidity are perceived as more stable and attractive to investors, thereby increasing their market value. Thus, the hypothesis in this study is: H_4: Liquidity has a effects on firm value.

Comment [A8]: Please make sure the direction of the influence, positive or negative.

Comment [A9]: Positive or negative?

Leverage refers to a company's use of debt within its capital structure, which can signal management's confidence in the company's ability to generate sufficient profits to meet its debt obligations. According to Signaling Theory, an optimal level of leverage is considered a positive signal for investors, indicating that the company is willing to take on debt because it expects its future performance to cover the cost of that debt. According to (Brigham and Houston 2020), leverage can enhance company value because debt is often a cheaper source of financing compared to equity, and the interest on debt can also provide tax benefits. Several studies, including those by (Fosu et al. 2016), (Kahfi, Pratomo, and Aminah 2018), (Lestari 2023), (Simorangkir 2019), (Jihadi et al. 2021), (Wahid, Ambarwati, and Satmoko 2022), (Ripaluddin, Pasulu, and Taufiq 2023), (Yuliyanti et al. 2023), and (Zulfa, Azam, and Bandono 2024), have found that leverage has a effects firm value. Optimal leverage has the potential to increase firm value through financing efficiency and the tax benefits obtained. Therefore, it can be concluded that the hypothesis in this study is: H_5: Leverage has a effects on firm value.

Comment [A10]: Please make sure the direction of the influence, positive or negative.

Comment [A11]: Positive or negative?

Firm size is often associated with company value, where larger companies are viewed as more stable and capable of facing higher business risks compared to smaller companies. Based on Signaling Theory, company size can serve as a positive signal to investors, indicating that the company has financial resilience and adequate resources to support long-term growth. According to (Brigham and Houston 2020), larger companies typically have better access to financing and business networks, enabling them to achieve greater economies of scale and improved operational efficiency, thus enhancing their competitiveness and value in the eyes of investors. Several studies have been conducted, including those by (Susanti and Restiana 2018), (Anggeriani, Fachrudin, and Silalahi 2018), (Hirdinis 2019), (Sugosha and Artini 2020), (Nugraha et al. 2020), (Reschiwati, Syahdina, and Handayani 2020), (Hapsoro and Falih 2020), (Natsir and Yusbardini 2020), (Nurwulandari, Wibowo, and Hasanudin 2021), (Atiningsih and Izzaty 2021), (Wahid, Ambarwati, and Satmoko 2022), (Lestari 2023), and (Zulfa, Azam, and Bandono 2024), which found that firm size has a effects on firm value. A larger company size can strengthen investors' perception of the company's strength and sustainability, ultimately increasing the market value of the company. Therefore, it can be concluded that the hypothesis in this study is: H_6: Firm size has a effects on firm value.

Comment [A12]: Please make sure the direction of the influence, positive or negative.

Comment [A13]: Positive or negative?

Profitability is a key factor that reflects a company's financial performance and is often used as an indicator of the company's ability to generate profits. Based on Signaling Theory, high profitability is considered a positive signal for investors as it reflects management efficiency and good growth prospects, ultimately enhancing the attractiveness and value of the company. According to (Brigham and Houston 2020), consistent profitability allows a company to strengthen its financial position, support expansion, and enhance flexibility in the face of market uncertainties, all of which contribute to an increase in company value. Several previous studies have been conducted by (Sucuahi and Cambarihan 2016), (Tui et al. 2017), (Rosikah et al. 2018), (Zuhroh 2019), (Dwiastuti and Dillak 2019), (Sari and Sedana 2020), (Darmawan et al. 2020), (Sugosha and Artini 2020), (Syamsudin et al. 2020), (Natsir and Yusbardini 2020), (Jihadi et al. 2021), (Yondrichs et al. 2021), (Olivia and Wiksuana 2021), (Suhendry, Toni, and Simorangkir 2021), (Atiningsih and Izzaty 2021), (Handayani, Indarto, and Santoso 2022), (Faradila and Effendi 2023), (Buti and Wiyarni 2023), (Lestari 2023), (Budiarti, Moeldjadi, and Wijayanti 2023), (Zulfa, Azam, and Bandono 2024), and (Yuliyanti et al. 2023), which found that profitability affects company value. High profitability is considered to strengthen investor confidence in the company’s long-term potential, thereby increasing the company's market value. Therefore, it can be concluded that the hypothesis in this study is: H_7: Profitability has a effects on firm value.

Comment [A14]: Please make sure the direction of the influence, positive or negative.

Comment [A15]: Positive or negative?

Profitability is considered capable of mediating the effect of liquidity on firm value because companies with high liquidity have greater financial flexibility to fund operations and investments that support achieving higher profits. Based on Signaling Theory, companies that can maintain high liquidity send a signal of financial stability to investors, which can enhance positive perceptions of the company’s profitability potential. According to (Brigham and Houston 2020), good liquidity can help companies maintain operational smoothness and capitalize on growth opportunities, which ultimately can enhance profitability. Research by

(Putro and Risman 2021) found that profitability is able to mediate the effect of liquidity on firm value. Good liquidity supports higher profitability, which ultimately increases the company's market value in the eyes of investors. Therefore, it can be concluded that the hypothesis in this study is: H_8: Profitability is capable of mediating the effect of liquidity on firm value.

Profitability is seen as capable of mediating the effect of leverage on company value because well-managed leverage can enhance a company's opportunities to generate higher profits, which subsequently contributes to an increase in company value. Based on Signaling Theory, the appropriate use of leverage demonstrates management's confidence in the company's future prospects, sending a positive signal to investors that the company can manage debt risk while generating stable profitability. According to (Brigham and Houston 2020), leverage can be an effective tool for increasing profits, provided that the company can manage debt costs and take advantage of the tax benefits derived from interest payments. Research by (Suhendry, Toni, and Simorangkir 2021) found that profitability is able to mediate the relationship between leverage and firm value. Proper leverage can enhance profitability, which ultimately strengthens the firm value in the eyes of investors. Therefore, it can be concluded that the hypothesis in this study is: H_9: Profitability is capable of mediating the effect of leverage on firm value.

Profitability is believed to be capable of mediating the effect of firm size on firm value, where larger company size often indicates the capacity to generate higher profits, which in turn enhances firm value. Based on Signaling Theory, larger companies can provide positive signals to investors regarding stability and growth potential, indicating that they possess competitive advantages and sufficient resources to achieve sustainable profitability. According to (Brigham and Houston 2020), larger companies are typically associated with higher operational efficiency and better access to funding sources, which can improve profitability. Subsequent research by (Natsir and Yusbardini 2020) and (Atiningsih and Izzaty 2021) found that profitability is able to mediate the effect of firm size on firm value. Larger firm size increases profitability, which ultimately enhances the company's value in the eyes of investors. Therefore, it can be concluded that the hypothesis in this study is: H_{10}: Profitability is capable of mediating the effect of firm size on firm value.

Comment [A16]: Add a research framework or model image

METHOD

The data used in this study is secondary data obtained the Indonesia Stock Exchange (IDX) website and the websites of the sample companies. The sample used in this research consists of companies listed in the LQ45 Index for the period 2018-2022. The sampling technique employed is purposive sampling, with the following criteria for the companies:

Table 1: Sample Selection Criteria

No	Criteria	Quantity
1	Companies listed in the LQ45 Index for the period of 2018-2022	**71**
2	Companies that are continuously listed in the LQ45 Index for	**(48)**

	the period of 2018-2022	
3	Companies that are part of the banking sector	**(5)**
4	Total sample of companies	**18**
5	Total observation periods	**5**
6	Total research sample: 18 company × 5 periods	**90**

The study employs panel data analysis using EViews 13 software. This technique is appropriate as the data encompasses multiple companies (cross-sections) over several years (time series). Panel data analysis is utilized to control for unobserved variables, providing more efficient and unbiased estimates compared to separate cross-sectional or time series analyses.

Data analysis is performed using panel data in EViews 13, which includes multiple companies (cross-sections) over a defined time period (time series), resulting in more efficient estimates than those from separate cross-sectional or time series analyses. Before conducting regression tests, model selection is carried out using the Chow Test (to choose between the Fixed Effect Model (FEM) or Common Effect Model (CEM)), the Hausman Test (FEM vs. Random Effect Model (REM)), and the Lagrange Multiplier Test (REM vs. CEM).

In this study, firm value serves as the dependent variable, measured by Tobin's Q (the ratio of market value to book value of assets). Profitability is the mediating variable, measured by Return on Assets (ROA), which reflects the ability to generate profit. The independent variables include liquidity, measured by the Current Ratio (CR), indicating the ability to meet short-term obligations; leverage, measured by the Debt to Equity Ratio (DER), which shows the use of debt to finance assets; and firm size, measured by the natural logarithm of total assets.

Comment [A17]: Add operational table of variables (variable name, formula, reference source, scale)

RESULTS AND DISCUSSIONS

Descriptive Statistics

Based on purposive sampling, there are 18 companies that meet the criteria for this study, covering a total research period of 5 years, resulting in 90 observations. Below are the descriptive statistics for the research sample.

Table 1 Research Results

	CR	DER	SIZE	ROA	TOB_Q
Mean	2.069762	0.995962	31.74953	0.098193	2.370528
Median	1.793200	0.716950	31.73615	0.069050	1.328050
Maximum	5.654800	3.582700	33.65520	0.466600	18.35510
Minimum	0.335600	0.126200	30.42460	-0.057200	0.531200
Std. Dev.	1.222886	0.865086	0.858551	0.091028	3.136242
Observations	90	90	90	90	90

Source : secondary data (2024)

Based on Table 1, the minimum value for liquidity (Current Ratio) is 0.335600, observed in the company EXCL in 2019. The maximum value is 5.654800, recorded by the company INCO in 2022. The mean value is 2.069762, with a standard deviation of 1.222886. The minimum value for leverage (Debt to Equity Ratio) is 0.126200, shown by the company MNCN in 2022, while the maximum value is 3.582700, indicated by the company UNVR in 2022. The mean value for this variable is 0.995962, with a standard deviation of 0.865086.

Next, the minimum value for firm size is 30.42460, observed in the company MNCN in 2018. The maximum value is 33.65520, recorded by the company ASII in 2022. The mean value for this variable is 31.74953, with a standard deviation of 0.858551. The minimum value for profitability (ROA) is –0.057200, shown by the company EXCL in 2018. The maximum value is 0.466600, indicated by the company UNVR in 2018. The mean value for this variable is 0.098193, with a standard deviation of 0.091028. The minimum value for firm value (Tobin's Q) is 0.531200, observed in the company ANTM in 2021, while the maximum value is 18.35510, recorded by the company UNVR in 2018. The mean value for this variable is 2.370528, with a standard deviation of 3.136242.

Normality Test

Structure I : The Impact of Liquidity, Leverage, and Firm Size on Profitability

Table 4: Results of Normality Test for Structure I

Long-run Normality Test Date: 11/05/24 Time: 04:11 Sample: 2018 2022 Included observations: 90		
	Statistic	Prob.
Skewness	0.457209	0.323761
Skewness 3/5	2.651.624	0.004005
Kurtosis	1.378.591	0.084010
Normality	4.733.084	0.093805

Source : secondary data (2024)

Based on Table 4 above, it is noted that the probability value is 0.093805 (>0.05), which allows us to conclude that the data follows a normal distribution.

Structure II : The Impact of Liquidity, Leverage, Firm Size, and Profitability on Firm Value

Table 5: Results of Normality Test for Structure II

Long-run Normality Test		
Date: 11/05/24 Time: 04:11		
Sample: 2018 2022		
Included observations: 90		
	Statistic	Prob.
Skewness	-0.149635	0.559474
Skewness 3/5	1.724.144	0.042341
Kurtosis	1.647.849	0.049692
Normality	3.448.649	0.178293

Source : secondary data (2024)

Based on Table 5 above, it is noted that the probability value is 0.178293 (>0.05), which allows us to conclude that the data follows a normal distribution.

Model Selection Analysis

Structure I : The Impact of Liquidity, Leverage, and Firm Size on Profitability

Based on the Chow Test results, the Cross-section F value is 0.0000 < 0.05, indicating that the chosen model is the Fixed Effect Model. The Hausman Test results show that the Cross-section random value is 0.0005 < 0.05, confirming that the Fixed Effect Model is preferred. The Lagrange Multiplier Test, Breusch-Pagan, also yields a value of 0.0000 < 0.05, leading to the choice of the Random Effect Model. Therefore, it can be concluded that the best model for this study is the Fixed Effect Model.

Structure II : The Impact of Liquidity, Leverage, Firm Size, and Profitability on Firm Value

Similar to Structure I, the Chow Test results indicate a Cross-section F value of 0.0000 < 0.05, leading to the selection of the Fixed Effect Model. The Hausman Test results show a Cross-section random value of 0.0000 < 0.05, confirming the Fixed Effect Model. The Lagrange Multiplier Test also yields a value of 0.0000 < 0.05, supporting the Random Effect Model. Thus, the conclusion remains that the best model for this study is the Fixed Effect Model.

Panel Data Regression Analysis

Structure I : The Influence of Liquidity, Leverage, and Firm Size on Profitability

Table 2 Regression Test Structure I

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.414084	0.696202	-2.031140	0.0461
CR	0.013543	0.010871	1.245752	0.2171
DER	-0.078628	0.018517	-4.246255	0.0001
SIZE	0.049215	0.022228	2.214097	0.0301
	Effects Specification			
Cross-section fixed (dummy variables)				
R-squared	0.868238	Mean dependent var		0.098193
Adjusted R-squared	0.830046	S.D. dependent var		0.091028

Source : secondary data (2024)

Based on Table 2, the regression for Structure I is as follows:

ROA = -1.414084 + 0.013543*CR - 0.078628*DER + 0.049215*SIZE

The regression coefficient value of the liquidity measured by the current ratio is 0.013543 with a probability value of 0.2171 (> 0.05), so the liquidity has no effect on profitability. Based on these results, it can be concluded that H_1 is rejected. The regression coefficient value of leverage measured by the debt to equity ratio is -0.078628 with a probability value of 0.0001 (<0.05), so leverage has an effect on profitability. Based on these results, it can be concluded that H_2 is accepted. The regression coefficient value of company size followed by Size is 0.049215 with a probability value of 0.0301 (<0.05), so firm size has an effect on profitability. Based on these results, it can be concluded that H_3 is accepted. Furthermore, the Adjusted R-squared value is 0.830046, which allows us to conclude that the influence of liquidity, leverage, and firm size on profitability accounts for 83.00%, while the remaining 17.00% is attributed to other factors.

Comment [A18]: It depends on the development of H2 (positive/negative)

Comment [A19]: It depends on the development of H3 (positive/negative)

Structure II : The Influence of Liquidity, Leverage, Firm Size, and Profitability on Firm Value

Table 3 Regression Test Structure II

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	31.74085	16.91184	1.876842	0.0648
CR	0.328991	0.259389	1.268330	0.2090
DER	-1.647843	0.490714	-3.358054	0.0013
SIZE	-0.925157	0.542815	-1.704370	0.0929
ROA	9.809679	2.840672	3.453295	0.0010
	Effects Specification			
Cross-section fixed (dummy variables)				
R-squared	0.939092	Mean dependent var		2.370528
Adjusted R-squared	0.920282	S.D. dependent var		3.136242

Source : secondary data (2024)

Based on Table 3, the regression for Structure II is as follows:

TOB_Q = 31.74085 + 0.328991*CR - 1.647843*DER -0.925157*SIZE + 9.809679*ROA

The regression coefficient value of the liquidity measured by the current ratio is 0.328991 with a probability value of 0.2090 (> 0.05), so the liquidity has no effect on firm value. Based on these results, it can be concluded that H_4 is rejected. The regression coefficient value of leverage measured by the debt to equity ratio is -1.647843 with a probability value of 0.0013 (<0.05), so leverage has an effect on firm value. Based on these results, it can be concluded that H_5 is accepted. The regression coefficient value of company size followed by Size is -0.925157 with a probability value of 0.0929 (>0.05), so firm size has no effect on firm value. Based on these results, it can be concluded that H_6 is accepted. The regression coefficient value of profitability measured by the return on assets is 9.809679 with a probability value of 0.0013 (<0.05), so profitability has an effect on firm value. Based on these results, it can be concluded that H_7 is accepted. Furthermore, the Adjusted R-squared value is 0.920282, indicating that the influence of liquidity, leverage, firm size, and profitability on firm value accounts for 92.03%, with the remaining 7.97% influenced by other factors.

Comment [A20]: It depends on the development of H5 (positive/negative)

Comment [A21]: rejected

Comment [A22]: 0.0010

Comment [A23]: It depends on the development of H7 (positive/negative)

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Sobel Test

Table 4 Results of the Sobel Test

	Test statistik	Std. Error	p-value
CR→ ROA→ Tob. Q	1,17186757	0,11336817	0,24125023
DER→ ROA→ Tob. Q	-2,67915963	0,28789454	0,00738072
SIZE→ ROA→ Tob. Q	1,86389404	0,25901867	0,06233659

Comment [A24]: English

Source : secondary data (2024)

From the results of the Sobel test, a *p*-value of 0.24125023 (>0.05) was obtained with a test statistic of 1.17186757 so that H_8 was rejected. Thus, it can be concluded that profitability is unable to mediate the effect of liquidity on firm value. The Sobel test results show a *p*-value of 0.00738072 (< 0.05) with a test statistic of -2.67915963, leading to the acceptance of H_9. This concludes that profitability can mediate the effect of leverage on firm value. The Sobel test results indicate a *p*-value of 0.06233659 (> 0.05) with a test statistic of 1.86389404, leading to the rejection of H_{10}. Thus, it can be concluded that profitability cannot mediate the effect of firm size on firm value.

The Effect of Liquidity on Profitability

This study finds that liquidity, measured by the Current Ratio (CR), does not have a significant effect on profitability. This indicates that, although current assets are available to meet short-term obligations, this does not automatically lead to increased profits. According to Signaling Theory, high liquidity can send a positive signal to investors regarding the financial stability of the company; however, without productive utilization, its impact on profitability is limited. (Brigham and Houston 2020) support this view by stating that high liquidity is often maintained for security purposes, but if those funds are merely held or allocated to less productive activities, their influence on profitability remains minimal. In practice, many companies in the LQ45 index maintain high liquidity to face economic uncertainty, but uninvested current assets merely serve as reserves without making a significant contribution to profits. These findings align with previous research by (Krismunita and Imronudin 2021) and (Handayani, Indarto, and Santoso 2022), which found that liquidity does not significantly affect profitability. Thus, this finding reinforces the notion that liquidity, as measured by the CR, only provides limited benefits to profitability if not accompanied by effective asset utilization strategies.

Comment [A25]: add an explanation of why the hypothesis is rejected or accepted by analyzing your research data more deeply

The Effect of Leverage on Profitability

This study finds that leverage, measured by the Debt to Equity Ratio (DER), has a significant impact on profitability, indicating that appropriate use of debt within the capital structure can enhance profits. Based on Signaling Theory, optimal leverage can send a positive signal to investors that the company is confident in managing debt to maximize profitability. According to (Brigham and Houston 2020), well-managed leverage can provide tax benefits through the reduction of taxable income by interest expenses; however, excessive use of debt increases the risk of bankruptcy. In practice, companies in the LQ45 index often leverage debt to scale up operations and expand their markets, particularly when investment opportunities are high but internal resources are limited. When managed efficiently, leverage can enhance profitability; however, if not managed properly, the cost of debt can burden the company's profits. These results align with previous research conducted by (Nugraha et al. 2020), (Bintara 2020), (Suhendry, Toni, and Simorangkir 2021), and (Ripaluddin, Pasulu, and Taufiq 2023), which found that leverage has a effects on profitability. Properly managed DER allows companies to achieve financial gains without excessively increasing risk, making optimal leverage a strategic tool for boosting profitability with careful financial strategies.

Comment [A26]: add an explanation of why the hypothesis is rejected or accepted by analyzing your research data more deeply

The Effect of Firm Size on Profitability

This study finds that firm size, measured by the natural logarithm of total assets (Ln Total Assets), has an impact on profitability, indicating that larger companies tend to have higher profitability due to their broad operational scale and cost efficiency gained from economies of scale. Based on Signaling Theory, a

Comment [A27]: add an explanation of why the hypothesis is rejected or accepted by analyzing your research data more deeply

larger firm size sends a positive signal to investors about stability and growth potential, which enhances confidence in the company's ability to generate profits. (Brigham and Houston 2020) explain that larger firms typically have better access to resources, such as funding, technology, and skilled labor, which supports operational efficiency and profitability. In practice, companies in the LQ45 index often leverage their substantial assets to strengthen market positions and pursue investment opportunities that are difficult for smaller firms to access. However, without efficient management, large size can become a burden, increasing costs and lowering profit margins. These findings align with previous research by (Hirdinis 2019), (Natsir and Yusbardini 2020), and (Atiningsih and Izzaty 2021), which found that firm size affects profitability, as larger firms can optimize their assets for productive activities and achieve higher profits.

The Effect of Liquidity on Firm Value

This study indicates that liquidity, measured by the Current Ratio (CR), does not impact firm value, suggesting that high liquidity does not automatically enhance the company's value in the eyes of investors. According to Signaling Theory, high liquidity should signal financial stability, but if current assets are not productively invested in high-return ventures, their impact on firm value remains limited. (Brigham and Houston 2020) also assert that excess liquidity may signal inefficient asset use, as liquid assets not allocated to productive investments will not directly contribute to increasing firm value. In practice, many companies in the LQ45 index maintain high liquidity as a reserve against economic uncertainty, but they tend not to use it for long-term value growth. These findings align with previous studies by (Tui et al. 2017), (Adiputra and Hermawan 2020), (Putro and Risman 2021), (Suhendry, Toni, and Simorangkir 2021), (Nurwulandari, Wibowo, and Hasanudin 2021), (Yondrichs et al. 2021), (Wahid, Ambarwati, and Satmoko 2022), (Handayani, Indarto, and Santoso 2022), (Budiarti, Moeldjadi, and Wijayanti 2023), (Yuliyanti et al. 2023), and (Zulfa, Azam, and Bandono 2024), which found that liquidity does not affect firm value, as high liquidity often serves only as a buffer without impact on firm value unless it is managed within a productive investment strategy.

Comment [A28]: add an explanation of why the hypothesis is rejected or accepted by analyzing your research data more deeply

The Effect of Leverage on Firm Value

This study finds that leverage, measured by the Debt to Equity Ratio (DER), impacts firm value, indicating that optimal debt usage can enhance firm value by expanding investment capacity without increasing equity. According to Signaling Theory, appropriate leverage sends a positive signal to investors that the company can manage debt to improve performance and value. (Brigham and Houston 2020) note that leverage can offer tax benefits through interest deductions; however, excessive debt increases bankruptcy risk, potentially reducing perceptions of firm value. In practice, LQ45 index companies often use leverage to strengthen capital and expand markets, increasing their attractiveness to investors. However, excessive leverage can be detrimental if debt burdens exceed returns, reducing profits and decreasing firm value. These findings are consistent with studies by (Fosu et al. 2016), (Kahfi, Pratomo, and Aminah 2018), (Lestari 2023), (Simorangkir 2019), (Jihadi et al. 2021), (Wahid, Ambarwati, and Satmoko 2022), (Ripaluddin, Pasulu, and Taufiq 2023), (Yuliyanti et al. 2023),

Comment [A29]: add an explanation of why the hypothesis is rejected or accepted by analyzing your research data more deeply

and (Zulfa, Azam, and Bandono 2024), which found that leverage impacts firm value, as wisely managed leverage can increase firm value, while uncontrolled leverage threatens stability and firm value.

The Effect of Firm Size on Firm Value

The study results show that firm size, measured by the natural logarithm of total assets (Ln Total Assets), does not influence firm value, indicating that firm size is not always a primary indicator of firm value. In the context of signaling theory, large firms with more resources and stability do not necessarily provide a positive signal to investors, especially if they face managerial issues or operational inefficiencies. (Brigham and Houston 2020) note that in a competitive business environment, firm size alone is not the determining factor of value. These findings align with previous studies by (Tui et al. 2017), (Dwiastuti and Dillak 2019), (Adiputra and Hermawan 2020), (Nurwulandari, Wibowo, and Hasanudin 2021), (Handayani, Indarto, and Santoso 2022), (Yulandri, Hertina, and Asih 2023), and (Hechmi and Saanoun 2024), which found that firm size (SIZE) does not impact firm value. This also implies that while larger firms may hold more assets, it does not guarantee an increase in firm value. The findings emphasize the importance of effective management and the firm's ability to send positive signals to the market, rather than relying solely on large size as an indicator of performance and value.

Comment [A30]: add an explanation of why the hypothesis is rejected or accepted by analyzing your research data more deeply

The Effect of Profitability on Firm Value

The study results show that profitability, measured by Return on Assets (ROA), influences firm value, indicating that good financial performance can enhance investors' positive perception of firm value. In the framework of signaling theory, profitability serves as a positive signal indicating management's efficiency in generating profits from its assets, thereby increasing investor confidence. (Brigham and Houston 2020) explain that in a competitive business environment, investors tend to focus on financial performance as an indicator of growth potential, where strong profitability builds confidence in the firm's ability to expand. These findings are consistent with studies by (Sucuahi and Cambarihan 2016), (Tui et al. 2017), (Rosikah et al. 2018), (Zuhroh 2019), (Dwiastuti and Dillak 2019), (Sari and Sedana 2020), (Darmawan et al. 2020), (Sugosha and Artini 2020), (Syamsudin et al. 2020), (Natsir and Yusbardini 2020), (Jihadi et al. 2021), (Yondrichs et al. 2021), (Olivia and Wiksuana 2021), (Suhendry, Toni, and Simorangkir 2021), (Atiningsih and Izzaty 2021), (Handayani, Indarto, and Santoso 2022), (Faradila and Effendi 2023), (Buti and Wiyarni 2023), (Lestari 2023), (Budiarti, Moeldjadi, and Wijayanti 2023), (Zulfa, Azam, and Bandono 2024), and (Yulianti et al. 2024), which found that profitability influences firm value. This shows that high profitability, including ROA, contributes positively to firm value, underscoring the importance of profitability in attracting investor attention and trust, with implications for enhancing the firm's market value.

Comment [A31]: add an explanation of why the hypothesis is rejected or accepted by analyzing your research data more deeply

Profitability as a Mediator of the Effect of Liquidity on Firm Value

The research findings indicate that profitability does not mediate the effect of liquidity on firm value, suggesting that while liquidity is an important factor, profitability does not always act as a connecting element that strengthens this

Comment [A32]: add an explanation of why the hypothesis is rejected or accepted by analyzing your research data more deeply

relationship. In the context of signaling theory, good liquidity can provide a positive signal regarding the financial health of a company; however, if profitability is low, investors may remain skeptical about the company's long-term growth prospects, thereby hindering the improvement of firm value. (Brigham and Houston 2020) state that firms with high liquidity but low profitability are often perceived as higher-risk, which can reduce their attractiveness to investors. These findings align with studies by (Handayani, Indarto, and Santoso 2022) and (Ripaluddin, Pasulu, and Taufiq 2023), who also found that profitability does not mediate the effect of liquidity on firm value. Liquidity may directly impact firm value without needing profitability as a mediator, highlighting that a company may have strong cash flow yet be inefficient at generating profit. These results underscore the complexity of the relationship between liquidity, profitability, and firm value, where other factors may play a more dominant role in shaping investor perceptions.

Profitability as a Mediator of the Effect of Leverage on Firm Value

Comment [A33]: add an explanation of why the hypothesis is rejected or accepted by analyzing your research data more deeply

The research findings show that profitability successfully mediates the effect of leverage on firm value, indicating that good profitability performance can enhance the positive impact of leverage on firm value. From the perspective of signaling theory, the use of debt can signal that the company has opportunities to increase profitability through debt-financed investments; if the company can generate sufficient profits, profitability acts as a mediator that strengthens the positive signal about the company's value. (Brigham and Houston 2020) emphasize that as long as a company can generate profit to cover debt costs, leveraging can boost shareholder returns. These findings are consistent with research by (Suhendry, Toni, and Simorangkir 2021), which found that profitability mediates the relationship between leverage and firm value. Profitability plays a critical role in mediating the link between leverage and firm value, where companies that efficiently manage debt and generate profits tend to have a higher perceived value among investors. This shows that profitability not only reflects the company's financial health but also enhances investor perceptions of the risks and potential returns of debt usage.

Profitability as a Mediator of the Effect of Firm Size on Firm Value

Comment [A34]: add an explanation of why the hypothesis is rejected or accepted by analyzing your research data more deeply

The research findings indicate that profitability does not mediate the effect of firm size on firm value. This suggests that while firm size can affect firm value, profitability performance does not act as a connecting factor that strengthens this relationship. In signaling theory terms, large companies often signal stability and business continuity to investors; however, firm size alone does not guarantee strong profitability. (Brigham and Houston 2020) explain that, in practice, large companies with extensive assets are not necessarily efficient in resource management, which can lead to low profitability. These findings align with the research by (Hirdinis 2019), who found that profitability does not mediate the relationship between firm size and firm value. This underscores the complexity of the relationship between firm size, profitability, and firm value, where profitability may not always serve as a determining factor in the context of firm size.

CONCLUSIONS

This study contributes to the literature on the relationships among liquidity, leverage, firm size, profitability, and firm value. The results indicate that profitability does not mediate the effects of liquidity and firm size on firm value but can mediate the effect of leverage on firm value, providing new insights into the internal mechanisms of companies within the context of the Indonesian capital market, specifically for firms listed in the LQ45 index. Theoretically, these findings highlight the need to consider mediating factors in models linking capital structure and firm performance, as direct effects This research also offers insights that can be utilized by company management, investors, and policymakers. The findings underscore the importance of prudent leverage management, as high leverage without adequate profitability can decrease firm value. Investors may also use this information to be more cautious when evaluating companies with high leverage but low profitability.

Comment [A35]: provide additional explanation of the theoretical and practical implications of the research results so that the research results are useful in developing theory and practice in the capital market

The study uses data from companies within the LQ45 index for the period 2018-2022. This limitation may restrict the generalizability of the results to all companies listed on the Indonesia Stock Exchange (IDX) or companies in other sectors. Although this research considers several important variables such as liquidity, leverage, firm size, and profitability, many other variables could influence firm value, such as innovation, risk management, or corporate governance quality, which were not included in this study's model. The research employs panel data analysis with a Fixed Effect Model. While this method is suitable for panel data, it may not fully capture all dynamics occurring within companies, especially those related to external factors such as macroeconomic conditions or regulatory changes.

Comment [A36]: Add theoretical and practical implications of the research

Future researchers could expand the sample to include companies from various sectors and extend the study period to see if these findings hold consistent over a longer timeframe and across different sectors. Additionally, incorporating additional variables such as risk management or corporate governance could help examine how these factors interact with liquidity, leverage, and firm size in influencing firm value. Future research could also employ alternative methodological approaches, such as path analysis or structural equation modeling (SEM), to test more complex relationships among the studied variables.

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Revisi artikel telah saya kirimkan ulang,
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THE ROLE OF PROFITABILITY IN MEDIATING DETERMINANTS OF FIRM VALUE

ABSTRACT

This study aims to analyze the role of profitability in mediating the relationship between liquidity, leverage, and firm size in relation to firm value. The data used in this study are secondary data obtained from the Indonesia Stock Exchange websites. The population consists of 71 companies listed in the LQ45 index for the period 2018-2022. The study sample includes 18 non-bank companies within the LQ45 index, selected through purposive sampling, yielding a total of 90 observations over five years. Data analysis was conducted using panel data with EViews 13 software. model selection was carried out through the Chow Test, Hausman Test, and Lagrange Multiplier Test. The results indicate that liquidity has no effect on profitability, whereas leverage and firm size significantly impact profitability. Furthermore, leverage influences firm value, while liquidity and firm size show no significant effect on firm value. Profitability does not mediate the effect of liquidity and firm size on firm value but does mediate the effect of leverage on firm value. Theoretically, this research complements previous theories and serves as a reference for future studies. Practically, investors can utilize this information to exercise caution when assessing companies with high leverage levels but low profitability.

Keywords: Profitability, Liquidity, Leverage, Firm Size, Firm Value.

INTRODUCTION

Firm value is one of the primary indicators used by investors to assess a company's performance and future prospects. High firm value reflects investor confidence in the company’s ability to generate profits and sustain itself over the long term. According to Anggeriani, Fachrudin, and Silalahi (2018), maximizing firm value is crucial for a company, as it also maximizes shareholder wealth, which is the primary objective of a business. Numerous studies have examined factors affecting firm value, yet their findings have been inconsistent. Factors such as liquidity, leverage, firm size, and profitability can influence firm value.

High liquidity signals to investors that the company has sound financial health and a low risk of bankruptcy. However, excessive liquidity may also indicate that a company is not optimally utilizing its financial resources. Several studies, including (Kahfi, Pratomo, and Aminah 2018), (Hapsoro and Falih 2020), (Reschiwati, Syahdina, and Handayani 2020), (Darmawan et al. 2020), (Jihadi et al. 2021), and (Ripaluddin, Pasulu, and Taufiq 2023) liquidity has a positive effect on firm value. In contrast, studies by (Tui et al. 2017), (Adiputra and Hermawan 2020), (Sari and Sedana 2020), (Putro and Risman 2021), (Suhendry, Toni, and Simorangkir 2021), (Nurwulandari, Wibowo, and Hasanudin 2021), (Yondrichs et al. 2021), (Wahid, Ambarwati, and Satmoko 2022), (Handayani, Indarto, and Santoso 2022), (Budiarti, Moeldjadi, and Wijayanti 2023), (Yuliyanti et al. 2023), dan (Zulfa, Azam, and Bandono 2024) indicate that liquidity (CR) does not affect firm value.

The second factor affecting firm value is leverage. The leverage ratio is used to measure the extent to which a company's activities are financed by debt, including both short-term and long-term debt. A higher leverage ratio indicates a greater level of dependence on external parties (creditors) and a larger amount of interest expenses that the company must pay. Leverage reflects how much debt a company uses in its capital structure. When used appropriately, debt can provide tax benefits and increase earnings per share. However, excessive debt can lead to a higher risk of bankruptcy, which may diminish firm value. Several studies have been conducted, including those by (Fosu et al. 2016), (Kahfi, Pratomo, and Aminah 2018), (Lestari 2023), (Simorangkir 2019), (Jihadi et al. 2021), (Wahid, Ambarwati, and Satmoko 2022), (Ripaluddin, Pasulu, and Taufiq 2023), (Yuliyanti et al. 2023), and (Zulfa, Azam, and Bandono 2024), which found that leverage significantly affects firm value. In contrast, research by (Dwiastuti and Dillak 2019), (Suhendry, Toni, and Simorangkir 2021), (Almomani et al. 2022), (Handayani, Indarto, and Santoso 2022), (Yulandri, Hertina, and Asih 2023), and (Habakkuk, Nduati, and Wang'ombe 2023) found that leverage does not affect firm value.

Firm size is also a significant factor in determining firm value. Larger companies typically have better access to resources and capital markets, which can help them maintain stable performance and enhance firm value. However, company size can also lead to inefficiencies that ultimately negatively impact firm value. Several studies have been conducted, including those by (Susanti and Restiana 2018), (Anggeriani, Fachrudin, and Silalahi 2018), (Hirdinis 2019), (Sugosha and Artini 2020), (Nugraha et al. 2020), (Reschiwati, Syahdina, and Handayani 2020), (Hapsoro and Falih 2020), (Natsir and Yusbardini 2020), (Nurwulandari, Wibowo, and Hasanudin 2021), (Atiningsih and Izzaty 2021), (Wahid, Ambarwati, and Satmoko 2022), (Lestari 2023), and (Zulfa, Azam, and Bandono 2024), which found that firm size has a effects on firm value. In contrast, research by (Tui et al. 2017), (Dwiastuti and Dillak 2019), (Adiputra and Hermawan 2020), (Nurwulandari, Wibowo, and Hasanudin 2021), (Handayani, Indarto, and Santoso 2022), (Yulandri, Hertina, and Asih 2023), and (Hechmi and Saanoun 2024) found that firm size (SIZE) does not affect firm value.

High profitability can enhance investor confidence, which in turn can increase firm value. Profitability is the end result of a series of policies and decisions made by the company (Brigham and Houston 2020). Several previous studies have been conducted, including those by (Sucuahi and Cambarihan 2016), (Tui et al. 2017), (Rosikah et al. 2018), (Zuhroh 2019), (Dwiastuti and Dillak 2019), (Sari and Sedana 2020), (Darmawan et al. 2020), (Sugosha and Artini 2020), (Syamsudin et al. 2020), (Natsir and Yusbardini 2020), (Jihadi et al. 2021), (Yondrichs et al. 2021), (Olivia and Wiksuana 2021), (Suhendry, Toni, and Simorangkir 2021), (Atiningsih and Izzaty 2021), (Handayani, Indarto, and Santoso 2022), (Faradila and Effendi 2023), (Buti and Wiyarni 2023), (Lestari 2023), (Budiarti, Moeldjadi, and Wijayanti 2023), (Zulfa, Azam, and Bandono 2024), and (Yulianti et al. 2024), which found that profitability affects firm value. In contrast, research conducted by (Astuti, Wahyudi, and Mawardi 2018), (Reschiwati, Syahdina, and Handayani 2020), (Hapsoro and Falih 2020), (Nurwulandari, Wibowo, and Hasanudin 2021), (Ripaluddin, Pasulu, and Taufiq

2023), and (Yuliyanti et al. 2023) found that profitability does not affect firm value.

Furthermore, profitability, which reflects a company's ability to generate profits, is considered a key factor that mediates the relationship between liquidity, leverage, and firm size on firm value. The liquidity of a company has an impact on its value, both directly and through profitability as a mediator. Adequate liquidity enables a company to meet its short-term obligations, providing confidence to investors about the company's financial stability, which can enhance firm value. However, high liquidity also needs to be balanced with effective management to avoid hindering asset productivity. With maintained liquidity, the company can operate efficiently, supporting an increase in profitability. High profitability indicates optimal company performance, thus enhancing its attractiveness to investors and ultimately increasing firm value. Several previous studies have been conducted, including those by (Tahu and Susilo 2017), (Tui et al. 2017), (Nugraha et al. 2020), (Bintara 2020), (Suhendry, Toni, and Simorangkir 2021), (Ripaluddin, Pasulu, and Taufiq 2023) and (Nguyen, Le, and Nguyen 2024), which found that liquidity affects profitability. In contrast, research conducted by (Krismunita and Imronudin 2021) and (Handayani, Indarto, and Santoso 2022) found that liquidity does not affect profitability. Further research by (Putro and Risman 2021) found that profitability can mediate the effect of liquidity on firm value. However, the studies by (Handayani, Indarto, and Santoso 2022) and (Ripaluddin, Pasulu, and Taufiq 2023) found that profitability is not capable of mediating the effect of liquidity on firm value.

Furthermore, a company's leverage has an important relationship with firm value, particularly when influenced by the mediating role of profitability. Optimal use of leverage allows a company to finance investments without sacrificing equity, thereby increasing potential profits and growth. However, high leverage also increases financial risk and interest costs, which can reduce net income. In this context, profitability mediates the relationship by demonstrating the company's effectiveness in managing debt to generate profits. If a company can efficiently use leverage to enhance profitability, it will attract investor interest and increase firm value. Conversely, if leverage fails to improve profitability, the financial risks borne by the company may negatively impact its value. Several previous studies have been conducted, including those by (Nugraha et al. 2020), (Bintara 2020), (Suhendry, Toni, and Simorangkir 2021), and (Ripaluddin, Pasulu, and Taufiq 2023), which found that leverage affects profitability. In contrast, research by (Hamidah 2016), (Makhdalena 2018), (Ramadhanti, Amaliawiati, and Nugraha 2021), and (Handayani, Indarto, and Santoso 2022) found that leverage does not affect profitability. Additionally, the study by (Suhendry, Toni, and Simorangkir 2021) found that profitability can mediate the relationship between leverage and firm value, while the research by (Ripaluddin, Pasulu, and Taufiq 2023) found that profitability does not mediate the relationship between leverage and firm value.

The relationship between firm size and firm value through profitability is supported by research findings from (Hirdinis 2019), (Natsir and Yusbardini 2020), and (Atiningsih and Izzaty 2021), which indicate that firm size affects profitability. In contrast, (Tui et al. 2017) found that firm size does not influence profitability. Subsequent studies by Natsir and Yusbardini (2020) and (Atiningsih

and Izzaty 2021) found that profitability can mediate the effect of firm size on firm value. Meanwhile, (Hirdinis 2019) found that profitability does not mediate the relationship between firm size and firm value.

This study examines the impact of liquidity, leverage, and firm size on firm value with profitability, measured through Return on Assets (ROA), as a mediating variable, and has yielded varied findings. Some studies found that ROA can mediate the effect of liquidity on firm value, as reported by (Putro and Risman 2021). However, other studies showed different results, such as the research conducted by (Handayani, Indarto, and Santoso 2022), which concluded that profitability does not mediate the effect of liquidity on firm value. Similarly, in the context of leverage, research by (Suhendry, Toni, and Simorangkir 2021) indicates that ROA can mediate the effect of leverage on firm value, while the study by (Ripaluddin, Pasulu, and Taufiq 2023) states otherwise. The inconsistency of these results creates a gap that highlights the need for further studies to clarify the role of ROA as an effective mediator in this model.

The novelty of this research lies in the comprehensive approach used to analyze the role of ROA as a mediating variable in the effects of liquidity, leverage, and firm size on firm value. While most previous studies have tended to examine these variables separately or have focused only on their direct effects on firm value, this study offers an integrated approach by evaluating all three variables simultaneously. This provides a new perspective that enriches the academic literature and generates deeper insights into the mediating role of ROA in enhancing firm value.

This research is highly urgent as it aims to address the inconsistencies in the results of previous studies. Considering that firm value is a primary reference for investors in making investment decisions, understanding the role of profitability as a mediating variable will provide practical guidance for companies in enhancing investor confidence and attractiveness. Thus, this study is relevant for financial managers in their efforts to maximize firm value through better management of liquidity, leverage, and firm size.

In terms of originality, this research offers a novel contribution by integrating these three variables into a single model and examining the effectiveness of profitability as a mediating factor. This study also utilizes more recent data and analysis methodologies tailored to the current economic conditions, making the results more relevant for practical guidance and corporate strategies.

The objective of this research is to examine and analyze whether ROA can mediate the effects of liquidity, leverage, and firm size on firm value, both directly and indirectly. Additionally, this study aims to comprehensively explain the extent to which these three variables influence firm value. The findings of this research are expected to contribute academically by enriching the literature on the role of profitability as a mediating variable. Practically, the results are anticipated to provide guidance for financial managers in making decisions related to liquidity management, leverage, and firm size, which ultimately can enhance profitability and firm value.

LITERATURE REVIEW

Signaling Theory

Signaling theory was proposed by Michael Spence in 1973, suggesting that asymmetric information between company managers and investors can be addressed through signals provided by management. In this context, companies use financial reports or strategic actions as signals to investors regarding the company's condition and prospects. (Brigham and Houston 2020) explain that the information conveyed by management through financial statements, dividend policies, or investment decisions can serve as signals about the company's status and future potential to external parties. These signals help reduce the information asymmetry between managers and investors, assisting investors in making better investment decisions. Actions that are perceived as positive signals, such as increased profits or the announcement of new projects, can enhance investor confidence and have a positive impact on firm value.

Firm Value

Firm value represents the market's perception of the overall performance and future prospects of the company. According to (Brigham and Houston 2020), firm value can be defined as the market value assessed through stock price and the total equity held by shareholders. Firm value is crucial because the primary objective of financial management is to maximize it for the benefit of shareholders. A common measure used to assess firm value is Tobin's Q, which is the ratio of the company's market value of assets (market capitalization) to the replacement cost of the company's assets.

Profitability

Profitability is a measure of a company's performance in generating profit relative to its sales, assets, or equity. According to (Brigham and Houston 2020), profitability is a key indicator used to assess how efficiently a company's management utilizes its resources to generate earnings. High profitability indicates that the company has successfully managed its assets efficiently to generate profits, which is a sign of good financial performance. Profitability is also often used as a mediating variable that strengthens the relationship between other financial factors and company value, as good performance typically enhances investor confidence.

Liquidity

Liquidity refers to a company's ability to meet its short-term obligations as they come due without facing financial difficulties. According to (Brigham and Houston 2020), liquidity is crucial for a company as it reflects the ability to convert current assets into cash to fulfill short-term liabilities. High liquidity can reduce the risk of bankruptcy because the company can meet its short-term obligations. However, excessive liquidity may also indicate inefficient cash management, as an excess of current assets can decrease profitability levels.

Leverage

Leverage refers to the use of debt financing to enhance the potential return to a company's shareholders. According to (Brigham and Houston 2020), leverage reflects the extent to which a company utilizes debt in its capital structure, which can increase both risk and potential returns for shareholders. Leverage can provide benefits in the form of increased profits if the investments financed with debt yield returns greater than the cost of the debt itself. However, leverage also carries risks, particularly financial risk, because the higher the debt, the greater the obligation for interest and principal repayments that the company must fulfill. If a company fails to meet these obligations, it could lead to bankruptcy. Companies with high leverage have more debt compared to equity, which can provide tax benefits but also heightens financial risk. High leverage can increase the value of a company due to tax advantages, but if it becomes excessive, it may raise the risk of bankruptcy.

Firm Size

Firm size is an important factor in financial analysis and management strategy. According to (Brigham and Houston 2020), firm size, measured by total assets or sales, reflects the capacity and stability of a company in its operations and can influence market perceptions. Firm size is often associated with the total assets owned, which reflects the magnitude of resources available to support business operations and expansion. Generally, the larger the company size, the greater its capacity to obtain financing from capital markets, whether through equity or debt.

Hypothesis Development

In signaling theory, high liquidity can serve as a positive signal for investors, indicating that the company has a good ability to meet its short-term obligations and manage cash efficiently, which in turn can enhance investor confidence and create opportunities for increased profitability. (Brigham and Houston 2020) explain that adequate liquidity allows a company to take advantage of profitable investment opportunities and avoid costs associated with late payments or reliance on short-term funding sources. Several previous studies conducted by (Tahu and Susilo 2017), (Tui et al. 2017), (Nugraha et al. 2020), (Suhendry, Toni, and Simorangkir 2021), (Ripaluddin, Pasulu, and Taufiq 2023), and (Nguyen, Le, and Nguyen 2024) found that liquidity has a positive effects on profitability. Companies with adequate cash reserves tend to be more stable and flexible in investing in productive assets, which ultimately enhances their financial performance. This indicates that good liquidity management not only maintains financial stability but can also act as a catalyst in improving the company’s profitability. Therefore, it can be concluded that the hypothesis in this study is: H1: Liquidity has a positive effects on profitability.

Leverage refers to the use of debt by a company in its capital structure, which can signal management's confidence in the company's ability to generate sufficient profits to meet its debt obligations. Based on Signaling Theory, an optimal level of leverage is considered a positive signal for investors, indicating that the company is willing to take on debt because it expects its future performance to cover the associated costs. According to (Brigham and Houston

2020), leverage can enhance the value of a company since debt is often a cheaper source of funding compared to equity, and the interest on debt can provide tax benefits. Research by (Suhendry, Toni, and Simorangkir 2021), and (Ripaluddin, Pasulu, and Taufiq 2023) found that leverage has a positive affects profitability, while (Nugraha et al. 2020) and (Bintara 2020) found that leverage has a negative effect on profitability. Therefore, it can be concluded that the hypothesis in this study is: H_2: Leverage has a positive effects on profitability.

Firm size is often measured by total assets or revenue, reflecting its capacity and operational scale. Larger companies generally have more resources, better access to markets, and the ability to take advantage of economies of scale. These advantages allow for a reduction in unit costs and an increase in operational efficiency, which in turn contributes to enhanced profitability. Furthermore, large companies typically have stronger bargaining power with suppliers and customers, which can result in higher profit margins and a reinforced market position. Additionally, company size is often seen as an indicator of financial strength and stability. From the perspective of Signaling Theory, a large size serves as a positive signal to investors and stakeholders, as it reflects quality and promising profitability potential. According to (Brigham and Houston 2020), larger companies usually have better access to various resources, such as funding, technology, and skilled labor, all of which support operational efficiency and facilitate higher profitability. Research by (Hirdinis 2019), (Natsir and Yusbardini 2020), and (Atiningsih and Izzaty 2021) found that company size has a positive effects on profitability. Thus, the hypothesis in this study is: H_3: Firm size has a positive effect on profitability.

Liquidity refers to a company's ability to meet its short-term obligations and is often viewed as a positive signal regarding the company's financial stability in the eyes of investors. According to Signaling Theory, companies with good liquidity levels send signals indicating that they have a solid financial capacity to handle their obligations, which can enhance market perception of the company's value. According to (Brigham and Houston 2020), adequate liquidity enables companies to maintain operational flexibility and avoid the risk of financial distress, ultimately increasing the company's attractiveness to investors. Research by (Kahfi, Pratomo, and Aminah 2018), (Hapsoro and Falih 2020), (Darmawan et al. 2020), and (Jihadi et al. 2021), found that liquidity has a positive effects on firm value, while (Reschiwati, Syahdina, and Handayani 2020), (Olivia and Wiksuana 2021), and (Ripaluddin, Pasulu, and Taufiq 2023) found that liquidity has a negative effects on firm value. Companies with high liquidity are perceived as more stable and attractive to investors, thereby increasing their market value. Thus, the hypothesis in this study is: H_4: Liquidity has a positive effect on firm value.

Leverage refers to a company's use of debt within its capital structure, which can signal management's confidence in the company's ability to generate sufficient profits to meet its debt obligations. According to Signaling Theory, an optimal level of leverage is considered a positive signal for investors, indicating that the company is willing to take on debt because it expects its future performance to cover the cost of that debt. According to (Brigham and Houston 2020), leverage can enhance company value because debt is often a cheaper source of financing compared to equity, and the interest on debt can also provide tax benefits. Several studies, including those by (Lestari 2023), (Jihadi et al. 2021), (Wahid, Ambarwati, and Satmoko 2022), (Yuliyanti et al. 2023), and (Zulfa, Azam, and Bandono 2024), have found that leverage has a positive effects on firm value, while (Fosu et al. 2016), (Kahfi, Pratomo, and Aminah 2018), (Simorangkir 2019), and (Ripaluddin, Pasulu, and Taufiq 2023), have found that leverage has a negative effects on firm value. Optimal leverage has the potential to increase firm value through financing efficiency and the tax benefits obtained. Therefore, it can be concluded that the hypothesis in this study is: H_5: Leverage has a positive effects on firm value.

Firm size is often associated with company value, where larger companies are viewed as more stable and capable of facing higher business risks compared to smaller companies. Based on Signaling Theory, company size can serve as a positive signal to investors, indicating that the company has financial resilience and adequate resources to support long-term growth. According to (Brigham and Houston 2020), larger companies typically have better access to financing and business networks, enabling them to achieve greater economies of scale and improved operational efficiency, thus enhancing their competitiveness and value in the eyes of investors. Several studies have been conducted, including those by (Hapsoro and Falih 2020), (Natsir and Yusbardini 2020), (Nurwulandari, Wibowo, and Hasanudin 2021), (Atiningsih and Izzaty 2021), (Lestari 2023), and (Zulfa, Azam, and Bandono 2024), which found that firm size has a positif effects on firm value, while (Susanti and Restiana 2018), (Hirdinis 2019), (Reschiwati, Syahdina, and Handayani 2020), (Wahid, Ambarwati, and Satmoko 2022) have found that firm size has a negative effects on firm value. A larger company size can strengthen investors' perception of the company's strength and sustainability, ultimately increasing the market value of the company. Therefore, it can be concluded that the hypothesis in this study is: H_6: Firm size has a positive effects on firm value.

Profitability is a key factor that reflects a company's financial performance and is often used as an indicator of the company's ability to generate profits. Based on Signaling Theory, high profitability is considered a positive signal for investors as it reflects management efficiency and good growth prospects, ultimately enhancing the attractiveness and value of the company. According to (Brigham and Houston 2020), consistent profitability allows a company to strengthen its financial position, support expansion, and enhance flexibility in the face of market uncertainties, all of which contribute to an increase in company value. Several previous studies have been conducted by (Sucuahi and Cambarihan 2016), (Tui et al. 2017), (Rosikah et al. 2018), (Zuhroh 2019), (Dwiastuti and Dillak 2019), (Sari and Sedana 2020), (Darmawan et al. 2020), (Sugosha and Artini 2020), (Natsir and Yusbardini 2020), (Jihadi et al. 2021), (Yondrichs et al. 2021), (Olivia and Wiksuana 2021), (Suhendry, Toni, and Simorangkir 2021), (Atiningsih and Izzaty 2021), (Handayani, Indarto, and Santoso 2022), (Faradila and Effendi 2023), (Buti and Wiyarni 2023), (Lestari 2023), and (Budiarti, Moeldjadi, and Wijayanti 2023), which found that profitability has a positive effects on company value, while (Zulfa, Azam, and Bandono 2024), found that profitability has a negative effects on company value. High profitability is considered to strengthen investor confidence in the company’s long-term potential, thereby increasing the company's market value. Therefore, it can be concluded that the hypothesis in this study is: H_7: Profitability has a positive effects on firm value.

Profitability is considered capable of mediating the effect of liquidity on firm value because companies with high liquidity have greater financial flexibility to fund operations and investments that support achieving higher profits. Based on Signaling Theory, companies that can maintain high liquidity send a signal of financial stability to investors, which can enhance positive perceptions of the company's profitability potential. According to (Brigham and Houston 2020), good liquidity can help companies maintain operational smoothness and capitalize on growth opportunities, which ultimately can enhance profitability. Research by (Putro and Risman 2021) found that profitability is able to mediate the effect of liquidity on firm value. Good liquidity supports higher profitability, which ultimately increases the company's market value in the eyes of investors. Therefore, it can be concluded that the hypothesis in this study is: H_8: Profitability is capable of mediating the effect of liquidity on firm value.

Profitability is seen as capable of mediating the effect of leverage on company value because well-managed leverage can enhance a company's opportunities to generate higher profits, which subsequently contributes to an increase in company value. Based on Signaling Theory, the appropriate use of leverage demonstrates management's confidence in the company's future prospects, sending a positive signal to investors that the company can manage debt risk while generating stable profitability. According to (Brigham and Houston 2020), leverage can be an effective tool for increasing profits, provided that the company can manage debt costs and take advantage of the tax benefits derived from interest payments. Research by (Suhendry, Toni, and Simorangkir 2021) found that profitability is able to mediate the relationship between leverage and firm value. Proper leverage can enhance profitability, which ultimately strengthens the firm value in the eyes of investors. Therefore, it can be concluded that the hypothesis in this study is: H_9: Profitability is capable of mediating the effect of leverage on firm value.

Profitability is believed to be capable of mediating the effect of firm size on firm value, where larger company size often indicates the capacity to generate higher profits, which in turn enhances firm value. Based on Signaling Theory, larger companies can provide positive signals to investors regarding stability and growth potential, indicating that they possess competitive advantages and sufficient resources to achieve sustainable profitability. According to (Brigham and Houston 2020), larger companies are typically associated with higher operational efficiency and better access to funding sources, which can improve profitability. Subsequent research by (Natsir and Yusbardini 2020) and (Atiningsih and Izzaty 2021) found that profitability is able to mediate the effect of firm size on firm value. Larger firm size increases profitability, which ultimately enhances the company's value in the eyes of investors. Therefore, it can be concluded that the hypothesis in this study is: H_{10}: Profitability is capable of mediating the effect of firm size on firm value.

Framework

Based on the theoretical basis and the results of previous studies and the problems that have been raised, then as a basis for formulating a hypothesis, the following framework is presented in the research model in the following figure:

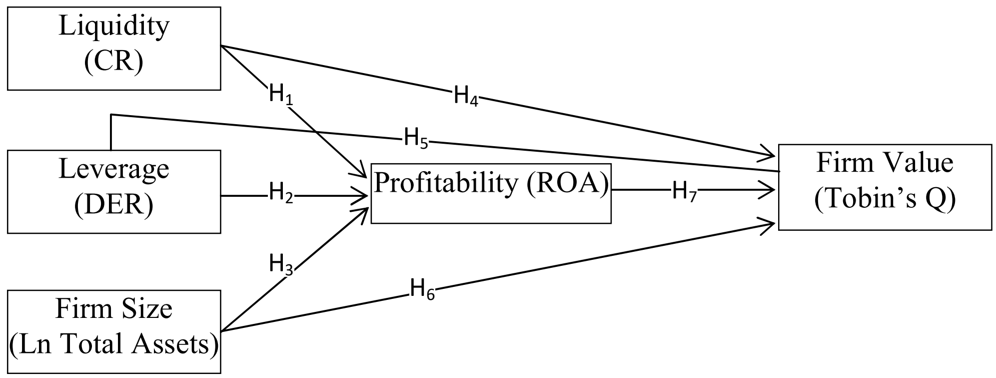

Figure 1. Conseptual Model Method

METHOD

The data used in this study is secondary data obtained the Indonesia Stock Exchange (IDX) website and the websites of the sample companies. The sample used in this research consists of companies listed in the LQ45 Index for the period 2018-2022. The sampling technique employed is purposive sampling, with the following criteria for the companies:

Table 1: Sample Selection Criteria

No	Criteria	Quantity
1	Companies listed in the LQ45 Index for the period of 2018-2022	**71**
2	Companies that are continuously listed in the LQ45 Index for the period of 2018-2022	**(48)**
3	Companies that are part of the banking sector	**(5)**
4	Total sample of companies	**18**
5	Total observation periods	**5**
6	Total research sample: 18 company × 5 periods	**90**

The study employs panel data analysis using EViews 13 software. This technique is appropriate as the data encompasses multiple companies (cross-sections) over several years (time series). Panel data analysis is utilized to control for unobserved variables, providing more efficient and unbiased estimates compared to separate cross-sectional or time series analyses.

Data analysis is performed using panel data in EViews 13, which includes multiple companies (cross-sections) over a defined time period (time series), resulting in more efficient estimates than those from separate cross-sectional or time series analyses. Before conducting regression tests, model selection is carried out using the Chow Test (to choose between the Fixed Effect Model (FEM) or Common Effect Model (CEM)), the Hausman Test (FEM vs. Random Effect Model (REM)), and the Lagrange Multiplier Test (REM vs. CEM).

In this study, firm value serves as the dependent variable, measured by Tobin's Q (the ratio of market value to book value of assets). Profitability is the mediating variable, measured by Return on Assets (ROA), which reflects the ability to generate profit. The independent variables include liquidity, measured by the Current Ratio (CR), indicating the ability to meet short-term obligations;

leverage, measured by the Debt to Equity Ratio (DER), which shows the use of debt to finance assets; and firm size, measured by the natural logarithm of total assets.

Operational variables can be summarized in the following table 2 :

Table 2 Operationalization of Variables

Variabel	Definisi	Pengukuran	Skala
Liquidity (X_1)	Liquidity ratios are ratios that show the relationship between a company's cash and other current assets with its current liabilities. (Brigham and Houston 2020)	$CR = \frac{\text{Cuurent Assets}}{\text{Current Liability}}$ (Adiputra and Hermawan 2020)	Rasio
Leverage (X_2)	The leverage ratio is a ratio used to measure how much of a company's activities are financed with debt, both short-term debt and long-term debt. (Brigham and Houston 2020)	$DER = \frac{\text{Total Utang}}{\text{Total Ekuitas}}$ (Bintara 2020)	Rasio
Firm Size (X_3)	Company size (firm size) is the scale of the company's size which can be classified in various ways, including total revenue, total assets and total equity. (Brigham and Houston 2020)	Firm Size = Ln (Total Asset) (Adiputra and Hermawan 2020)	Rasio
Profitability (Z)	Profitability is the end result of a number of policies and decisions made by a company. (Brigham and Houston 2020)	$ROA = \frac{\text{Earning After Tax}}{\text{Total Asset}}$ (Bintara 2020)	Rasio
Firm Value (Y)	Company value can be interpreted as the market value assessed through share prices and total equity owned by shareholders. (Brigham and Houston 2020)	$TOBIN'S\ Q = \frac{MVE + DEBT}{TA}$ (Adiputra and Hermawan 2020)	Rasio

RESULTS AND DISCUSSIONS

Descriptive Statistics

Based on purposive sampling, there are 18 companies that meet the criteria for this study, covering a total research period of 5 years, resulting in 90 observations. Below are the descriptive statistics for the research sample.

Table 3 Research Results

	CR	DER	SIZE	ROA	TOB_Q
Mean	2.069762	0.995962	31.74953	0.098193	2.370528
Median	1.793200	0.716950	31.73615	0.069050	1.328050
Maximum	5.654800	3.582700	33.65520	0.466600	18.35510
Minimum	0.335600	0.126200	30.42460	-0.057200	0.531200

Std. Dev.	1.222886	0.865086	0.858551	0.091028	3.136242
Observations	90	90	90	90	90

Source : secondary data (2024)

Based on Table 3, the minimum value for liquidity (Current Ratio) is 0.335600, observed in the company EXCL in 2019. The maximum value is 5.654800, recorded by the company INCO in 2022. The mean value is 2.069762, with a standard deviation of 1.222886. The minimum value for leverage (Debt to Equity Ratio) is 0.126200, shown by the company MNCN in 2022, while the maximum value is 3.582700, indicated by the company UNVR in 2022. The mean value for this variable is 0.995962, with a standard deviation of 0.865086.

Next, the minimum value for firm size is 30.42460, observed in the company MNCN in 2018. The maximum value is 33.65520, recorded by the company ASII in 2022. The mean value for this variable is 31.74953, with a standard deviation of 0.858551. The minimum value for profitability (ROA) is –0.057200, shown by the company EXCL in 2018. The maximum value is 0.466600, indicated by the company UNVR in 2018. The mean value for this variable is 0.098193, with a standard deviation of 0.091028. The minimum value for firm value (Tobin's Q) is 0.531200, observed in the company ANTM in 2021, while the maximum value is 18.35510, recorded by the company UNVR in 2018. The mean value for this variable is 2.370528, with a standard deviation of 3.136242.

Normality Test

Structure I : The Impact of Liquidity, Leverage, and Firm Size on Profitability

Table 4: Results of Normality Test for Structure I

Long-run Normality Test Date: 11/05/24 Time: 04:11 Sample: 2018 2022 Included observations: 90		
	Statistic	Prob.
Skewness	0.457209	0.323761
Skewness 3/5	2.651.624	0.004005
Kurtosis	1.378.591	0.084010
Normality	4.733.084	0.093805

Source : secondary data (2024)

Based on Table 4 above, it is noted that the probability value is 0.093805 (>0.05), which allows us to conclude that the data follows a normal distribution.

Structure II : The Impact of Liquidity, Leverage, Firm Size, and Profitability on Firm Value

Table 5: Results of Normality Test for Structure II

Long-run Normality Test		
Date: 11/05/24 Time: 04:11		
Sample: 2018 2022		
Included observations: 90		
	Statistic	Prob.
Skewness	-0.149635	0.559474
Skewness 3/5	1.724.144	0.042341

Kurtosis	1.647.849	0.049692
Normality	3.448.649	0.178293

Source : secondary data (2024)

Based on Table 5 above, it is noted that the probability value is 0.178293 (>0.05), which allows us to conclude that the data follows a normal distribution.

Model Selection Analysis

Structure I : The Impact of Liquidity, Leverage, and Firm Size on Profitability

Based on the Chow Test results, the Cross-section F value is 0.0000 < 0.05, indicating that the chosen model is the Fixed Effect Model. The Hausman Test results show that the Cross-section random value is 0.0005 < 0.05, confirming that the Fixed Effect Model is preferred. The Lagrange Multiplier Test, Breusch-Pagan, also yields a value of 0.0000 < 0.05, leading to the choice of the Random Effect Model. Therefore, it can be concluded that the best model for this study is the Fixed Effect Model.

Structure II : The Impact of Liquidity, Leverage, Firm Size, and Profitability on Firm Value

Similar to Structure I, the Chow Test results indicate a Cross-section F value of 0.0000 < 0.05, leading to the selection of the Fixed Effect Model. The Hausman Test results show a Cross-section random value of 0.0000 < 0.05, confirming the Fixed Effect Model. The Lagrange Multiplier Test also yields a value of 0.0000 < 0.05, supporting the Random Effect Model. Thus, the conclusion remains that the best model for this study is the Fixed Effect Model.

Panel Data Regression Analysis

Structure I : The Influence of Liquidity, Leverage, and Firm Size on Profitability

Table 6 Regression Test Structure I

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.414084	0.696202	-2.031140	0.0461
CR	0.013543	0.010871	1.245752	0.2171
DER	-0.078628	0.018517	-4.246255	0.0001
SIZE	0.049215	0.022228	2.214097	0.0301
	Effects Specification			
Cross-section fixed (dummy variables)				
R-squared	0.868238	Mean dependent var		0.098193
Adjusted R-squared	0.830046	S.D. dependent var		0.091028

Source : secondary data (2024)

Based on Table 6, the regression for Structure I is as follows:

$$ROA = -1.414084 + 0.013543*CR - 0.078628*DER + 0.049215*SIZE$$

The regression coefficient value of the liquidity measured by the current ratio is 0.013543 with a probability value of 0.2171 (> 0.05), so the liquidity has no effect on profitability. Based on these results, it can be concluded that H_1 is rejected. The regression coefficient value of leverage measured by the debt to equity ratio is -0.078628 with a probability value of 0.0001 (<0.05), so leverage has a negative effects on profitability. Based on these results, it can be concluded that H_2 is rejected. The regression coefficient value of company size followed by Size is 0.049215 with a probability value of 0.0301 (<0.05), so firm size has a postive effects on profitability. Based on these results, it can be concluded that H_3 is accepted. Furthermore, the Adjusted R-squared value is 0.830046, which allows us to conclude that the influence of liquidity, leverage, and firm size on profitability accounts for 83.00%, while the remaining 17.00% is attributed to other factors.

Structure II : The Influence of Liquidity, Leverage, Firm Size, and Profitability on Firm Value

Table 7 Regression Test Structure II

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	31.74085	16.91184	1.876842	0.0648
CR	0.328991	0.259389	1.268330	0.2090
DER	-1.647843	0.490714	-3.358054	0.0013
SIZE	-0.925157	0.542815	-1.704370	0.0929
ROA	9.809679	2.840672	3.453295	0.0010
	Effects Specification			
Cross-section fixed (dummy variables)				
R-squared	0.939092	Mean dependent var		2.370528
Adjusted R-squared	0.920282	S.D. dependent var		3.136242

Source : secondary data (2024)

Based on Table 7, the regression for Structure II is as follows:

TOB_Q = 31.74085 + 0.328991*CR - 1.647843*DER -0.925157*SIZE + 9.809679*ROA

The regression coefficient value of the liquidity measured by the current ratio is 0.328991 with a probability value of 0.2090 (> 0.05), so the liquidity has no effect on firm value. Based on these results, it can be concluded that H_4 is rejected. The regression coefficient value of leverage measured by the debt to equity ratio is -1.647843 with a probability value of 0.0013 (<0.05), so leverage has a negative effect on firm value. Based on these results, it can be concluded that H_5 is rejected. The regression coefficient value of company size followed by Size is -0.925157 with a probability value of 0.0929 (>0.05), so firm size has no negative effect on firm value. Based on these results, it can be concluded that H_6 is rejected. The regression coefficient value of profitability measured by the return on assets is 9.809679 with a probability value of 0.0010 (<0.05), so profitability has a postive effect on firm value. Based on these results, it can be concluded that H_7 is accepted. Furthermore, the Adjusted R-squared value is 0.920282, indicating that the influence of liquidity, leverage, firm size, and profitability on firm value accounts for 92.03%, with the remaining 7.97% influenced by other factors.

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Sobel Test

Table 8 Results of the Sobel Test

	Test Statistic	**Std. Error**	**p-value**
CR→ ROA→ Tob. Q	1,17186757	0,11336817	0,24125023
DER→ ROA→ Tob. Q	-2,67915963	0,28789454	0,00738072
SIZE→ ROA→ Tob. Q	1,86389404	0,25901867	0,06233659

Source : secondary data (2024)

From the results of the Sobel test, a *p*-value of 0.24125023 (>0.05) was obtained with a test statistic of 1.17186757 so that H_8 was rejected. Thus, it can be concluded that profitability is unable to mediate the effect of liquidity on firm value. The Sobel test results show a *p*-value of 0.00738072 (< 0.05) with a test statistic of -2.67915963, leading to the acceptance of H_9. This concludes that profitability can mediate the effect of leverage on firm value. The Sobel test results indicate a *p*-value of 0.06233659 (> 0.05) with a test statistic of 1.86389404, leading to the rejection of H_{10}. Thus, it can be concluded that profitability cannot mediate the effect of firm size on firm value.

The Effect of Liquidity on Profitability

This study found that liquidity as measured by the Current Ratio (CR) does not have a positive effect on profitability in LQ 45 index companies. According to Signaling Theory, high liquidity can provide a positive signal to investors regarding the company's financial stability, but if it is not used productively, its impact on profitability is limited. (Brigham and Houston 2020) support this view by stating that high liquidity is often maintained for safety purposes, but if the funds are only stored or allocated for less productive activities, its effect on profitability remains minimal.

This finding suggests that although LQ45 companies generally have good financial performance and high liquidity, their ability to meet short-term obligations does not always have a direct impact on increasing profits. This may be due to the less than optimal efficiency of using current assets, such as inventory and receivables, which may not be allocated productively to support revenue-generating activities. In addition, the profitability of LQ45 companies is more likely to be influenced by other factors such as operational strategy, cost structure, leverage, or dividend policy, which are more dominant in influencing financial results. This finding underlines that while high liquidity is important for maintaining financial stability, companies need to ensure that liquid assets are managed efficiently and directed towards investments or operational activities that can increase profitability. This finding is inconsistent with previous studies by (Tahu and Susilo 2017), (Tui et al. 2017), (Nugraha et al. 2020), (Suhendry, Toni, and Simorangkir 2021), (Ripaluddin, Pasulu, and Taufiq 2023), and (Nguyen, Le, and Nguyen 2024) found that liquidity has a positive effect on profitability, but this finding is inconsistent with previous studies by (Krismunita and Imronudin 2021) and (Handayani, Indarto, and Santoso 2022), which found that liquidity did not significantly affect profitability. Thus, this finding reinforces the idea that liquidity, as measured by CR, only provides limited benefits to profitability if not accompanied by an effective asset utilization strategy.

The Effect of Leverage on Profitability

This study found that leverage, as measured by the Debt to Equity Ratio (DER), has a negative effect on profitability, as measured by Return on Assets (ROA), in companies listed in the LQ45 index on the Indonesia Stock Exchange. Based on Signal Theory, optimal leverage can send a positive signal to investors, indicating that the company is confident in managing debt to maximize profitability. According to (Brigham and Houston 2020), well-managed leverage can provide tax benefits by reducing taxable income through interest expenses; however, excessive debt use increases the risk of bankruptcy.

In practice, companies in the LQ45 index often utilize debt to enhance operations and expand their markets, particularly when investment opportunities are abundant but internal resources are limited. These findings indicate that higher reliance on debt financing among these leading companies tends to reduce their ability to generate profits from their assets. A high DER typically leads to increased interest expenses and fixed financial obligations, which ultimately erode the company's net profit.

Moreover, a high DER reflects greater financial risk, which can limit a company's operational flexibility in seizing strategic opportunities. The negative impact on profitability may also result from inefficient allocation of debt funds, where investments fail to generate returns higher than the cost of borrowing. For LQ45 companies, which are recognized for their superior financial and operational performance, these results underscore the importance of prudent debt management. While debt can be a tool for driving growth, excessive reliance without careful planning can harm profitability. Therefore, maintaining an optimal balance between debt and equity in the capital structure is crucial to sustaining profitability while managing financial risks effectively.

The findings of this study are inconsistent with previous research by (Suhendry, Toni, and Simorangkir 2021), and (Ripaluddin, Pasulu, and Taufiq 2023) which found that leverage positively affects profitability. However, the results align with studies by (Nugraha et al. 2020) and (Bintara 2020), which found that leverage has a negative effect on profitability.

The Effect of Firm Size on Profitability

This study found that company size, measured using the natural logarithm of total assets (Ln Total Assets), has a positive effect on profitability, as measured by Return on Assets (ROA), in companies listed in the LQ45 index on the Indonesia Stock Exchange. Based on Signal Theory, a larger company sends a positive signal to investors about stability and growth potential, which enhances confidence in the company's ability to generate profits. According to (Brigham and Houston 2020), larger companies typically have better access to resources, such as funding, technology, and skilled labor, which supports operational efficiency and profitability.

These findings suggest that large companies in the LQ45 index, which generally have substantial assets, are able to leverage economies of scale and competitive advantages to improve operational efficiency and generate higher profits. As leading companies with strong reputations, LQ45-listed firms usually have easier access to capital markets, allowing them to obtain financing at relatively lower costs. Furthermore, these large companies have greater capabilities in product diversification, market penetration, and risk management, all of which contribute to improved profitability. The large size of these companies also gives them strong bargaining power with suppliers and customers, creating opportunities to enhance profit margins.

However, these findings also emphasize the importance of effective asset management, even for large companies listed in LQ45. Large assets will not provide maximum benefits if they are not utilized efficiently to support value-generating activities. Therefore, companies must continuously improve their asset management strategies to ensure a positive contribution to profitability. These results indicate that company size is one of the key factors that can support profitability, especially in a competitive business environment like the LQ45 index. Large companies that successfully leverage economies of scale and competitive advantages tend to have better financial performance compared to smaller companies.

This finding is consistent with previous research conducted by (Hirdinis 2019), (Natsir and Yusbardini 2020), and (Atiningsih and Izzaty 2021), which found that company size influences profitability, as larger companies can optimize their assets for productive activities and achieve higher profits.

The Effect of Liquidity on Firm Value

This study shows that liquidity, measured using the Current Ratio (CR), has no effect on firm value, measured by Tobin's Q, for companies listed on the LQ45 index on the Indonesia Stock Exchange. According to Signal Theory, high liquidity should indicate financial stability, but if current assets are not productively invested in ventures with high returns, their impact on firm value remains limited. (Brigham and Houston 2020) also emphasize that excessive liquidity may signal inefficient use of assets, as liquid assets not allocated to productive investments do not directly contribute to increasing firm value.

In practice, many companies in the LQ45 index maintain high liquidity as a reserve against economic uncertainty, but they tend not to use it for long-term value growth. These findings indicate that a company's ability to meet its short-term obligations is not a primary factor influencing the market's perception of firm value among these prominent companies. Excessive liquidity in large companies, such as those listed in LQ45, may reflect inefficient cash management. Investors might view this as an indication that available funds are not being utilized for productive investment opportunities, such as business expansion, product innovation, or diversification strategies. Consequently, the market prioritizes other factors, such as profitability, growth prospects, and operational efficiency, when assessing firm value.

Companies in the LQ45 index generally have easy access to low-cost external financing due to their reputation and credibility. Therefore, liquidity in the form of high current assets may be less relevant compared to long-term investment and growth strategies. Furthermore, the capital market tends to value companies that enhance operational efficiency and allocate resources optimally rather than those that merely maintain high liquidity.

These results also reflect that the Indonesian capital market, particularly in the LQ45 context, is more influenced by strategic indicators such as return on investment, earnings stability, and innovation rather than merely the company's ability to meet short-term obligations. Thus, while liquidity remains essential for maintaining operational stability, LQ45 companies need to focus on strategies that enhance added value and attract investor interest.

These findings align with previous research suggesting that liquidity does not always have a direct impact on firm value, particularly in large and well-established companies. However, it is crucial for companies to maintain a balance of sufficient liquidity, not only to ensure operational stability but also to support the implementation of growth strategies that can increase firm value in the eyes of investors.

The results of this study contradict those of (Kahfi, Pratomo, and Aminah 2018), (Hapsoro and Falih 2020), (Reschiwati, Syahdina, and Handayani 2020), (Darmawan et al. 2020), (Jihadi et al. 2021), and (Ripaluddin, Pasulu, and Taufiq 2023), who found that liquidity positively affects firm value. However, the findings are consistent with (Reschiwati, Syahdina, and Handayani 2020), (Olivia and Wiksuana 2021), and (Ripaluddin, Pasulu, and Taufiq 2023), (Adiputra and Hermawan 2020), (Putro and Risman 2021), (Suhendry, Toni, and Simorangkir 2021), (Nurwulandari, Wibowo, and Hasanudin 2021), (Yondrichs et al. 2021), (Wahid, Ambarwati, and Satmoko 2022), (Handayani, Indarto, and Santoso 2022), (Budiarti, Moeldjadi, and Wijayanti 2023), (Yuliyanti et al. 2023), dan (Zulfa, Azam, and Bandono 2024), who found that liquidity has no effect on firm value.

The Effect of Leverage on Firm Value

This study found that leverage, as measured by the Debt to Equity Ratio (DER), has a negative effect on firm value as measured by Tobin's Q, in companies listed in the LQ45 index on the Indonesia Stock Exchange. According to Signal Theory, appropriate leverage sends a positive signal to investors that the company can manage debt to improve performance and value. (Brigham and Houston 2020) noted that leverage can offer tax benefits through interest deductions; however, excessive debt increases the risk of bankruptcy, which has the potential to reduce the perception of the company's value. In practice, LQ45 index companies often use leverage to strengthen capital and expand the market, thereby increasing their attractiveness to investors.

This negative relationship suggests that leading companies in the LQ45 that have high leverage levels tend to experience a decline in the company's value perceived by the market. In the context of LQ45 companies, which generally have a good reputation and easier access to external financing, high leverage can raise concerns among investors regarding financial risk. Heavy reliance on debt financing can increase interest expenses, thereby reducing net income available to shareholders. This can also exacerbate liquidity risk, especially in uncertain economic conditions.

Furthermore, high DER in LQ45 companies can be seen as an indication of lack of efficiency in capital structure management. Although these companies usually have the capacity to attract investment due to their reputation and credibility, excessive use of debt can reduce their financial flexibility in allocating funds to strategic growth opportunities, such as business expansion, diversification, or product innovation.

From a market perspective, investors tend to focus more on other performance indicators, such as profitability, operational efficiency, and growth stability, compared to high levels of leverage. Excessive leverage can also create the perception that the company is riskier and less oriented towards long-term growth, which ultimately reduces the company's market value as reflected in Tobin's Q.

The results of this study imply that companies in the LQ45 index need to maintain a balance between the use of debt and equity in their capital structure.

Focusing on operational efficiency, financial stability, and sustainable growth strategies is more likely to attract investors and increase the company's value in the eyes of the market.

The results of the study are not in line with the results of studies conducted by (Lestari 2023), (Jihadi et al. 2021), (Wahid, Ambarwati, and Satmoko 2022), (Yuliyanti et al. 2023), and (Zulfa, Azam, and Bandono 2024), which found that leverage has a positive effect on firm value. However, the results of this study are in line with the results of studies conducted by (Fosu et al. 2016), (Kahfi, Pratomo, and Aminah 2018), (Simorangkir 2019), and (Ripaluddin, Pasulu, and Taufiq 2023), which found that leverage has a negative effect on firm value.

The Effect of Firm Size on Firm Value

The research findings indicate that firm size, measured by Ln Total Assets, does not have a negative effect on firm value, measured by Tobin's Q. This means that the total assets owned by a company do not significantly impact the perceived market value of the firm in a way that decreases it. In the context of signaling theory, large companies with greater resources and stability do not necessarily send positive signals to investors, especially if they face managerial challenges or operational inefficiencies. According to (Brigham and Houston 2020), in a competitive business environment, firm size alone is not a determining factor of value.

Firm size is often seen as an indicator of operational strength and financial stability. Companies with substantial assets generally possess a higher capacity to operate on a larger scale, diversify revenue streams, and mitigate external risks. However, in this case, the findings suggest that merely owning significant assets is insufficient to produce either a negative or positive impact on firm value.

The market tends to evaluate more than just the size of assets, focusing instead on how effectively a company manages and utilizes those assets to generate revenue, profit, and returns on investment. If a company fails to optimize asset utilization, having a larger size does not necessarily provide a competitive advantage. Conversely, the market is likely to prioritize operational efficiency, asset productivity, and the long-term investment strategies implemented by the company.

In the context of large companies such as those listed in the LQ45 index, firm size may not be the primary factor influencing value. These companies typically have other advantages, such as easy access to financing, strong reputations, and opportunities to achieve economies of scale. Therefore, the market is more inclined to assess performance based on other indicators, such as profitability, innovation, revenue growth, or business diversification, rather than merely the size of the company's assets.

These findings differ from those of previous studies by (Hapsoro and Falih 2020), (Natsir and Yusbardini 2020), (Nurwulandari, Wibowo, and Hasanudin 2021), (Atiningsih and Izzaty 2021), (Lestari 2023), and (Zulfa, Azam, and Bandono 2024), which found that firm size has a positive effect on firm value. Similarly, they contrast with studies by (Susanti and Restiana 2018), (Hirdinis 2019), (Reschiwati, Syahdina, and Handayani 2020), and (Wahid, Ambarwati, and Satmoko 2022), which found that firm size negatively affects firm value. However, these results align with findings by (Adiputra and Hermawan 2020), and (Yulandri, Hertina, and Asih 2023), which found that firm size does not have a negative impact on firm value.

The Effect of Profitability on Firm Value

The research findings indicate that profitability, measured using Return on Assets (ROA), has a positive effect on firm value, as measured by Tobin's Q. This implies that the higher a company's ability to generate profits from its total assets, the higher the firm's value perceived by the market.

High profitability reflects a company's efficiency in utilizing its assets to generate income. In financial theory, strong profitability sends a positive signal to investors about the company's financial health and its capacity to deliver sustainable returns. This aligns with Signaling Theory, which posits that good financial performance builds investor confidence and enhances the company's attractiveness in capital markets. As noted by (Brigham and Houston 2020), in a competitive business environment, investors tend to focus on financial performance as an indicator of growth potential, where strong profitability fosters trust in the company's capacity for expansion.

A high ROA also demonstrates effective asset management and significant net profit generation. Consequently, companies with high ROA are considered more appealing as they signify operational efficiency and the potential to provide substantial returns to shareholders.

In the context of companies listed in the LQ45 index, the positive effect of profitability on firm value becomes even more relevant. These firms typically have better access to resources and larger business opportunities, making the profits they generate more impactful on their market value. A high Tobin's Q value in such companies reflects market appreciation for their efficiency and profitability performance.

These findings are consistent with previous studies conducted by (Sucuahi and Cambarihan 2016), (Tui et al. 2017), (Rosikah et al. 2018), (Zuhroh 2019), (Dwiastuti and Dillak 2019), (Sari and Sedana 2020), (Darmawan et al. 2020), (Sugosha and Artini 2020), (Natsir and Yusbardini 2020), (Jihadi et al. 2021), (Yondrichs et al. 2021), (Olivia and Wiksuana 2021), (Suhendry, Toni, and Simorangkir 2021), (Atiningsih and Izzaty 2021), (Handayani, Indarto, and Santoso 2022), (Faradila and Effendi 2023), (Buti and Wiyarni 2023), (Lestari 2023), and (Budiarti, Moeldjadi, and Wijayanti 2023), which also found that profitability positively influences firm value.

Profitability as a Mediator of the Effect of Liquidity on Firm Value

This study reveals that profitability, measured using Return on Assets (ROA), is unable to mediate the effect of liquidity, measured by the Current Ratio (CR), on firm value, measured by Tobin's Q. This indicates that while liquidity is an important factor, profitability does not always function as a linking element that strengthens the relationship. In the context of signaling theory, good liquidity can provide a positive signal about a company’s financial health. However, if profitability is low, investors may remain skeptical about the company’s long-term growth prospects, thereby hindering an increase in firm value. (Brigham and Houston 2020) state that companies with high liquidity but low profitability are often perceived as high-risk, reducing their attractiveness to investors.

These findings suggest that although liquidity reflects a company's ability to meet its short-term obligations, it does not significantly influence firm value through the profitability pathway. In this context, profitability does not serve as a mediator that strengthens the relationship between liquidity and firm value.

From a liquidity perspective, the CR is often used to assess a company's ability to maintain short-term financial stability. However, a high liquidity ratio does not necessarily indicate efficient utilization of assets or working capital to generate profits. If a company merely maintains liquidity without utilizing excess current assets to support operational or investment activities, its impact on profitability—and consequently on firm value—becomes limited.

Profitability, represented by ROA, typically reflects a company's efficiency in managing assets to generate profits. In many studies, profitability is expected to serve as a mediator in the relationship between other financial variables and firm value. However, this study reveals that ROA cannot strengthen the relationship between CR and Tobin's Q. This may be because high liquidity does not always generate sufficient profits to influence market perceptions of firm value. In other words, the market may not focus solely on liquidity and profitability but also consider other variables, such as growth, innovation, or investment strategies.

This study, conducted on companies listed in the LQ45 index, further validates these findings. Companies within the LQ45 index typically have greater access to resources and business opportunities, making their liquidity more stable. However, in a competitive environment, the market tends to evaluate companies based on other indicators such as operational efficiency, innovation, or long-term growth strategies, rather than solely focusing on the relationship between liquidity and profitability.

These findings align with studies by (Handayani, Indarto, and Santoso 2022) and (Ripaluddin, Pasulu, and Taufiq 2023), which also found that profitability does not mediate the effect of liquidity on firm value. Liquidity can directly impact firm value without requiring profitability as a mediator, highlighting that companies may have strong cash flows but are inefficient in generating profits. These results underscore the complexity of the relationship between liquidity, profitability, and firm value, where other factors may play a more dominant role in shaping investor perceptions.

Profitability as a Mediator of the Effect of Leverage on Firm Value

The research findings indicate that profitability, as measured by Return on Assets (ROA), plays a crucial role as a mediator in the relationship between leverage, measured by the Debt to Equity Ratio (DER), and firm value, measured by Tobin's Q. In other words, the influence of leverage on firm value is not solely direct but also involves profitability as a connecting pathway.

High leverage, as reflected by a high DER, indicates that a company significantly utilizes debt in its capital structure. This can provide strategic advantages if the debt is allocated to productive investments, leading to higher profits. However, high leverage also entails substantial financial risks, such as the potential for default, which may diminish investor confidence. In this context, profitability serves as a key indicator of the company's efficiency in utilizing its assets to generate profits while managing the risks associated with debt usage.

When a company is able to optimally use debt to boost productivity and generate substantial net income, it reflects sound financial management. High ROA signals to the market that the company effectively manages its assets, even under significant debt obligations. This, in turn, enhances investor confidence in the company's ability to sustain growth, thereby increasing firm value, as evidenced by an improvement in Tobin's Q.

Under the framework of signaling theory, companies with strong profitability send positive signals to investors, demonstrating their ability to not only manage leverage-related risks but also deliver significant returns. High profitability creates a perception that the company has solid fundamentals, strong competitiveness, and promising long-term growth prospects, thereby boosting its value in the eyes of the market. (Brigham and Houston 2020) emphasize that as long as companies can generate sufficient profits to cover debt costs, leverage can enhance shareholder returns.

This study underscores the importance of proper leverage management, with profitability serving as a critical success factor. Leverage utilized without sufficient profitability may only amplify risks. However, when accompanied by improved operational efficiency, as reflected by a higher ROA, its impact on firm value becomes more significant. Thus, companies that successfully manage this relationship are more likely to attract investor interest and enhance their competitiveness in the market.

These findings align with the research by (Suhendry, Toni, and Simorangkir 2021), which also found that profitability mediates the relationship between leverage and firm value. Profitability plays a vital role in bridging the gap between leverage and firm value, as companies that efficiently manage debt and generate profits tend to have higher perceived value among investors. This demonstrates that profitability not only reflects a company's financial health but also enhances investors' perceptions of the risks and potential returns associated with the use of debt.

Profitability as a Mediator of the Effect of Firm Size on Firm Value

The study conducted on companies listed in the LQ45 index reveals that profitability, measured using Return on Assets (ROA), fails to mediate the influence of firm size, measured by Ln Total Assets, on firm value, measured by Tobin's Q. This finding indicates that, although companies in the LQ45 index generally possess substantial assets, the profitability generated from these assets is not sufficiently significant to strengthen the relationship between firm size and firm value.

Companies within the LQ45 index are known for their large market capitalization and extensive access to capital markets. However, the results show that possessing large assets alone is insufficient to enhance firm value through profitability. One possible explanation is that these sizable assets are not yet optimally managed to generate profits. High operational costs, long-term investments that have not yielded results, or reliance on specific markets could hinder the efficiency of asset utilization.

Moreover, investors focusing on LQ45 companies tend to consider various factors beyond firm size and profitability. Indicators such as innovation, sustainability, long-term growth strategies, and global competitiveness are often prioritized. Thus, having substantial assets without accompanying operational efficiency and effective profit management might not significantly impact investors' perception of firm value.

Under signaling theory, large firms often signal stability and business continuity to investors; however, firm size alone does not guarantee high profitability. High profitability can deliver positive signals about a company's financial efficiency and sustainability. (Brigham and Houston 2020) explain that in practice, large companies with extensive assets may not always efficiently manage their resources, leading to lower profitability. In this case, if ROA is not sufficiently high, investors remain skeptical about the company's ability to optimally utilize its assets. This highlights the need for LQ45 companies to focus not only on asset accumulation but also on efficient management to generate significant profits.

The findings of this study carry important implications for companies in the LQ45 index. These companies need to improve the efficiency of managing their large assets to boost net profits. Additionally, it is crucial for them to develop long-term strategies involving innovation, business diversification, and better cost management. Through such efforts, these companies can send positive signals to investors about their financial fundamentals while simultaneously enhancing firm value.

This research aligns with the findings of (Hirdinis 2019), which showed that profitability does not mediate the relationship between firm size and firm value. This underscores the complexity of the relationship between firm size, profitability, and firm value, where profitability may not always act as a determining factor in the context of firm size. Despite the advantages of large assets and stable liquidity that LQ45 companies hold, their success in increasing firm value depends on their ability to manage those assets efficiently. By focusing on profitability and other relevant factors, companies in the LQ45 index can enhance their competitiveness and attractiveness to investors.

CONCLUSIONS

This study provides significant contributions to the development of theory and practice in the capital market, particularly in the context of the relationships between liquidity, leverage, firm size, profitability, and firm value. Theoretically, this research enriches financial literature by demonstrating that profitability mediates the effect of leverage on firm value but does not mediate the effects of liquidity and firm size. These findings offer new insights into the internal mechanisms of companies within the context of the Indonesian capital market, especially for companies listed in the LQ45 index. Within the framework of Signaling Theory, this study highlights that signals generated from firm size and liquidity are only effective if supported by operational efficiency that yields significant profits. Furthermore, the research emphasizes the importance of considering mediating factors such as profitability in models that link capital structure to firm value, providing a more comprehensive foundation for understanding interactions among financial variables.

Practically, this research offers critical implications for corporate management, investors, and policymakers. For corporate management, the findings underscore the importance of prudent leverage management. High leverage without adequate profitability can reduce firm value. Therefore, management must ensure that debt is used productively in profit-generating activities. Additionally, large liquidity and firm size should be managed efficiently to support productive investments and innovation, thereby creating added value. For investors, the findings provide guidance to exercise caution when evaluating companies with high leverage but low profitability. Profitability becomes a crucial indicator in assessing whether a company can manage financial risks and generate adequate returns. Meanwhile, for policymakers, this research highlights the importance of supporting financial transparency and efficient asset management to enhance investor confidence in the capital market.

In the context of the Indonesian capital market, these findings suggest that companies listed in the LQ45 index need to prioritize the efficient management of assets and leverage to enhance profitability and firm value. Large assets or high liquidity do not automatically improve firm value without optimal management. This study also emphasizes the importance of long-term growth strategies, including innovation and business diversification, as key factors supporting corporate competitiveness.

This research utilizes data from companies in the LQ45 index during the 2018–2022 period. This limitation may restrict the generalization of the findings to all companies listed on the Indonesia Stock Exchange (IDX) or companies in other sectors. Although the study considers several important variables such as liquidity, leverage, firm size, and profitability, many other variables, such as innovation, risk management, or corporate governance quality, could also influence firm value but were not included in the research model. The study employs panel data analysis with a Fixed Effects Model, which is appropriate for panel data but may not fully capture all dynamics within companies, particularly those related to external factors such as macroeconomic conditions or regulatory changes.

To expand the utility of these findings, future research is recommended to include companies outside the LQ45 index, incorporate additional variables such as innovation or corporate governance, and use more complex methodologies such as structural equation modeling (SEM). With these approaches, future studies could provide deeper insights into the financial dynamics of the Indonesian capital market.

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[jas] Editor Decision

Zakaria Batubara <jurnal.stiesyariahbks@gmail.com> 30 November 2024 pukul 14.17
Kepada: Ady Inrawan <adindr@gmail.com>, Darwin Lie <liedarwin989@gmail.com>

Ady Inrawan, Darwin Lie:

We have reached a decision regarding your submission to JAS (Jurnal Akuntansi Syariah), "THE ROLE OF PROFITABILITY IN MEDIATING DETERMINANTS OF FIRM VALUE".

Our decision is: Revisions Required*

Zakaria Batubara
Sekolah Tinggi Ilmu Ekonomi (STIE) Syariah Bengkalis

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THE ROLE OF PROFITABILITY IN MEDIATING DETERMINANTS OF FIRM VALUE

ABSTRACT

This study aims to analyze the role of profitability in mediating the relationship between liquidity, leverage, and firm size in relation to firm value. The data used in this study are secondary data obtained from the Indonesia Stock Exchange websites. The population consists of 71 companies listed in the LQ45 index for the period 2018-2022. The study sample includes 18 non-bank companies within the LQ45 index, selected through purposive sampling, yielding a total of 90 observations over five years. Data analysis was conducted using panel data with EViews 13 software. model selection was carried out through the Chow Test, Hausman Test, and Lagrange Multiplier Test. The results indicate that liquidity has no effect on profitability, whereas leverage and firm size significantly impact profitability. Furthermore, leverage influences firm value, while liquidity and firm size show no significant effect on firm value. Profitability does not mediate the effect of liquidity and firm size on firm value but does mediate the effect of leverage on firm value. Theoretically, this research complements previous theories and serves as a reference for future studies. Practically, investors can utilize this information to exercise caution when assessing companies with high leverage levels but low profitability.

Keywords: Profitability, Liquidity, Leverage, Firm Size, Firm Value.

INTRODUCTION

Firm value is one of the primary indicators used by investors to assess a company's performance and future prospects. High firm value reflects investor confidence in the company's ability to generate profits and sustain itself over the long term. According to Anggeriani, Fachrudin, and Silalahi (2018), maximizing firm value is crucial for a company, as it also maximizes shareholder wealth, which is the primary objective of a business. Numerous studies have examined factors affecting firm value, yet their findings have been inconsistent. Factors such as liquidity, leverage, firm size, and profitability can influence firm value.

High liquidity signals to investors that the company has sound financial health and a low risk of bankruptcy. However, excessive liquidity may also indicate that a company is not optimally utilizing its financial resources. Several studies, including (Kahfi, Pratomo, and Aminah 2018), (Hapsoro and Falih 2020), (Reschiwati, Syahdina, and Handayani 2020), (Darmawan et al. 2020), (Jihadi et al. 2021), and (Ripaluddin, Pasulu, and Taufiq 2023) liquidity has a positive effect on firm value. In contrast, studies by (Tui et al. 2017), (Adiputra and Hermawan 2020), (Sari and Sedana 2020), (Putro and Risman 2021), (Suhendry, Toni, and Simorangkir 2021), (Nurwulandari, Wibowo, and Hasanudin 2021), (Yondrichs et al. 2021), (Wahid, Ambarwati, and Satmoko 2022), (Handayani, Indarto, and Santoso 2022), (Budiarti, Moeldjadi, and Wijayanti 2023), (Yuliyanti et al. 2023), dan (Zulfa, Azam, and Bandono 2024) indicate that liquidity (CR) does not affect firm value.

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The second factor affecting firm value is leverage. The leverage ratio is used to measure the extent to which a company's activities are financed by debt, including both short-term and long-term debt. A higher leverage ratio indicates a greater level of dependence on external parties (creditors) and a larger amount of interest expenses that the company must pay. Leverage reflects how much debt a company uses in its capital structure. When used appropriately, debt can provide tax benefits and increase earnings per share. However, excessive debt can lead to a higher risk of bankruptcy, which may diminish firm value. Several studies have been conducted, including those by (Fosu et al. 2016), (Kahfi, Pratomo, and Aminah 2018), (Lestari 2023), (Simorangkir 2019), (Jihadi et al. 2021), (Wahid, Ambarwati, and Satmoko 2022), (Ripaluddin, Pasulu, and Taufiq 2023), (Yuliyanti et al. 2023), and (Zulfa, Azam, and Bandono 2024), which found that leverage significantly affects firm value. In contrast, research by (Dwiastuti and Dillak 2019), (Suhendry, Toni, and Simorangkir 2021), (Almomani et al. 2022), (Handayani, Indarto, and Santoso 2022), (Yulandri, Hertina, and Asih 2023), and (Habakkuk, Nduati, and Wang'ombe 2023) found that leverage does not affect firm value.

Firm size is also a significant factor in determining firm value. Larger companies typically have better access to resources and capital markets, which can help them maintain stable performance and enhance firm value. However, company size can also lead to inefficiencies that ultimately negatively impact firm value. Several studies have been conducted, including those by (Susanti and Restiana 2018), (Anggeriani, Fachrudin, and Silalahi 2018), (Hirdinis 2019), (Sugosha and Artini 2020), (Nugraha et al. 2020), (Reschiwati, Syahdina, and Handayani 2020), (Hapsoro and Falih 2020), (Natsir and Yusbardini 2020), (Nurwulandari, Wibowo, and Hasanudin 2021), (Atiningsih and Izzaty 2021), (Wahid, Ambarwati, and Satmoko 2022), (Lestari 2023), and (Zulfa, Azam, and Bandono 2024), which found that firm size has a effects on firm value. In contrast, research by (Tui et al. 2017), (Dwiastuti and Dillak 2019), (Adiputra and Hermawan 2020), (Nurwulandari, Wibowo, and Hasanudin 2021), (Handayani, Indarto, and Santoso 2022), (Yulandri, Hertina, and Asih 2023), and (Hechmi and Saanoun 2024) found that firm size (SIZE) does not affect firm value.

High profitability can enhance investor confidence, which in turn can increase firm value. Profitability is the end result of a series of policies and decisions made by the company (Brigham and Houston 2020). Several previous studies have been conducted, including those by (Sucuahi and Cambarihan 2016), (Tui et al. 2017), (Rosikah et al. 2018), (Zuhroh 2019), (Dwiastuti and Dillak 2019), (Sari and Sedana 2020), (Darmawan et al. 2020), (Sugosha and Artini 2020), (Syamsudin et al. 2020), (Natsir and Yusbardini 2020), (Jihadi et al. 2021), (Yondrichs et al. 2021), (Olivia and Wiksuana 2021), (Suhendry, Toni, and Simorangkir 2021), (Atiningsih and Izzaty 2021), (Handayani, Indarto, and Santoso 2022), (Faradila and Effendi 2023), (Buti and Wiyarni 2023), (Lestari 2023), (Budiarti, Moeldjadi, and Wijayanti 2023), (Zulfa, Azam, and Bandono 2024), and (Yulianti et al. 2024), which found that profitability affects firm value. In contrast, research conducted by (Astuti, Wahyudi, and Mawardi 2018), (Reschiwati, Syahdina, and Handayani 2020), (Hapsoro and Falih 2020), (Nurwulandari, Wibowo, and Hasanudin 2021), (Ripaluddin, Pasulu, and Taufiq

2023), and (Yuliyanti et al. 2023) found that profitability does not affect firm value.

Furthermore, profitability, which reflects a company's ability to generate profits, is considered a key factor that mediates the relationship between liquidity, leverage, and firm size on firm value. The liquidity of a company has an impact on its value, both directly and through profitability as a mediator. Adequate liquidity enables a company to meet its short-term obligations, providing confidence to investors about the company's financial stability, which can enhance firm value. However, high liquidity also needs to be balanced with effective management to avoid hindering asset productivity. With maintained liquidity, the company can operate efficiently, supporting an increase in profitability. High profitability indicates optimal company performance, thus enhancing its attractiveness to investors and ultimately increasing firm value. Several previous studies have been conducted, including those by (Tahu and Susilo 2017), (Tui et al. 2017), (Nugraha et al. 2020), (Bintara 2020), (Suhendry, Toni, and Simorangkir 2021), (Ripaluddin, Pasulu, and Taufiq 2023) and (Nguyen, Le, and Nguyen 2024), which found that liquidity affects profitability. In contrast, research conducted by (Krismunita and Imronudin 2021) and (Handayani, Indarto, and Santoso 2022) found that liquidity does not affect profitability. Further research by (Putro and Risman 2021) found that profitability can mediate the effect of liquidity on firm value. However, the studies by (Handayani, Indarto, and Santoso 2022) and (Ripaluddin, Pasulu, and Taufiq 2023) found that profitability is not capable of mediating the effect of liquidity on firm value.

Furthermore, a company's leverage has an important relationship with firm value, particularly when influenced by the mediating role of profitability. Optimal use of leverage allows a company to finance investments without sacrificing equity, thereby increasing potential profits and growth. However, high leverage also increases financial risk and interest costs, which can reduce net income. In this context, profitability mediates the relationship by demonstrating the company's effectiveness in managing debt to generate profits. If a company can efficiently use leverage to enhance profitability, it will attract investor interest and increase firm value. Conversely, if leverage fails to improve profitability, the financial risks borne by the company may negatively impact its value. Several previous studies have been conducted, including those by (Nugraha et al. 2020), (Bintara 2020), (Suhendry, Toni, and Simorangkir 2021), and (Ripaluddin, Pasulu, and Taufiq 2023), which found that leverage affects profitability. In contrast, research by (Hamidah 2016), (Makhdalena 2018), (Ramadhanti, Amaliawiati, and Nugraha 2021), and (Handayani, Indarto, and Santoso 2022) found that leverage does not affect profitability. Additionally, the study by (Suhendry, Toni, and Simorangkir 2021) found that profitability can mediate the relationship between leverage and firm value, while the research by (Ripaluddin, Pasulu, and Taufiq 2023) found that profitability does not mediate the relationship between leverage and firm value.

The relationship between firm size and firm value through profitability is supported by research findings from (Hirdinis 2019), (Natsir and Yusbardini 2020), and (Atiningsih and Izzaty 2021), which indicate that firm size affects profitability. In contrast, (Tui et al. 2017) found that firm size does not influence profitability. Subsequent studies by Natsir and Yusbardini (2020) and (Atiningsih

and Izzaty 2021) found that profitability can mediate the effect of firm size on firm value. Meanwhile, (Hirdinis 2019) found that profitability does not mediate the relationship between firm size and firm value.

This study examines the impact of liquidity, leverage, and firm size on firm value with profitability, measured through Return on Assets (ROA), as a mediating variable, and has yielded varied findings. Some studies found that ROA can mediate the effect of liquidity on firm value, as reported by (Putro and Risman 2021). However, other studies showed different results, such as the research conducted by (Handayani, Indarto, and Santoso 2022), which concluded that profitability does not mediate the effect of liquidity on firm value. Similarly, in the context of leverage, research by (Suhendry, Toni, and Simorangkir 2021) indicates that ROA can mediate the effect of leverage on firm value, while the study by (Ripaluddin, Pasulu, and Taufiq 2023) states otherwise. The inconsistency of these results creates a gap that highlights the need for further studies to clarify the role of ROA as an effective mediator in this model.

The novelty of this research lies in the comprehensive approach used to analyze the role of ROA as a mediating variable in the effects of liquidity, leverage, and firm size on firm value. While most previous studies have tended to examine these variables separately or have focused only on their direct effects on firm value, this study offers an integrated approach by evaluating all three variables simultaneously. This provides a new perspective that enriches the academic literature and generates deeper insights into the mediating role of ROA in enhancing firm value.

This research is highly urgent as it aims to address the inconsistencies in the results of previous studies. Considering that firm value is a primary reference for investors in making investment decisions, understanding the role of profitability as a mediating variable will provide practical guidance for companies in enhancing investor confidence and attractiveness. Thus, this study is relevant for financial managers in their efforts to maximize firm value through better management of liquidity, leverage, and firm size.

In terms of originality, this research offers a novel contribution by integrating these three variables into a single model and examining the effectiveness of profitability as a mediating factor. This study also utilizes more recent data and analysis methodologies tailored to the current economic conditions, making the results more relevant for practical guidance and corporate strategies.

The objective of this research is to examine and analyze whether ROA can mediate the effects of liquidity, leverage, and firm size on firm value, both directly and indirectly. Additionally, this study aims to comprehensively explain the extent to which these three variables influence firm value. The findings of this research are expected to contribute academically by enriching the literature on the role of profitability as a mediating variable. Practically, the results are anticipated to provide guidance for financial managers in making decisions related to liquidity management, leverage, and firm size, which ultimately can enhance profitability and firm value.

LITERATURE REVIEW

Signaling Theory

Signaling theory was proposed by Michael Spence in 1973, suggesting that asymmetric information between company managers and investors can be addressed through signals provided by management. In this context, companies use financial reports or strategic actions as signals to investors regarding the company's condition and prospects. (Brigham and Houston 2020) explain that the information conveyed by management through financial statements, dividend policies, or investment decisions can serve as signals about the company's status and future potential to external parties. These signals help reduce the information asymmetry between managers and investors, assisting investors in making better investment decisions. Actions that are perceived as positive signals, such as increased profits or the announcement of new projects, can enhance investor confidence and have a positive impact on firm value.

Firm Value

Firm value represents the market's perception of the overall performance and future prospects of the company. According to (Brigham and Houston 2020), firm value can be defined as the market value assessed through stock price and the total equity held by shareholders. Firm value is crucial because the primary objective of financial management is to maximize it for the benefit of shareholders. A common measure used to assess firm value is Tobin's Q, which is the ratio of the company's market value of assets (market capitalization) to the replacement cost of the company's assets.

Profitability

Profitability is a measure of a company's performance in generating profit relative to its sales, assets, or equity. According to (Brigham and Houston 2020), profitability is a key indicator used to assess how efficiently a company's management utilizes its resources to generate earnings. High profitability indicates that the company has successfully managed its assets efficiently to generate profits, which is a sign of good financial performance. Profitability is also often used as a mediating variable that strengthens the relationship between other financial factors and company value, as good performance typically enhances investor confidence.

Liquidity

Liquidity refers to a company's ability to meet its short-term obligations as they come due without facing financial difficulties. According to (Brigham and Houston 2020), liquidity is crucial for a company as it reflects the ability to convert current assets into cash to fulfill short-term liabilities. High liquidity can reduce the risk of bankruptcy because the company can meet its short-term obligations. However, excessive liquidity may also indicate inefficient cash management, as an excess of current assets can decrease profitability levels.

Leverage

Leverage refers to the use of debt financing to enhance the potential return to a company's shareholders. According to (Brigham and Houston 2020), leverage reflects the extent to which a company utilizes debt in its capital structure, which can increase both risk and potential returns for shareholders. Leverage can provide benefits in the form of increased profits if the investments financed with debt yield returns greater than the cost of the debt itself. However, leverage also carries risks, particularly financial risk, because the higher the debt, the greater the obligation for interest and principal repayments that the company must fulfill. If a company fails to meet these obligations, it could lead to bankruptcy. Companies with high leverage have more debt compared to equity, which can provide tax benefits but also heightens financial risk. High leverage can increase the value of a company due to tax advantages, but if it becomes excessive, it may raise the risk of bankruptcy.

Firm Size

Firm size is an important factor in financial analysis and management strategy. According to (Brigham and Houston 2020), firm size, measured by total assets or sales, reflects the capacity and stability of a company in its operations and can influence market perceptions. Firm size is often associated with the total assets owned, which reflects the magnitude of resources available to support business operations and expansion. Generally, the larger the company size, the greater its capacity to obtain financing from capital markets, whether through equity or debt.

Hypothesis Development

In signaling theory, high liquidity can serve as a positive signal for investors, indicating that the company has a good ability to meet its short-term obligations and manage cash efficiently, which in turn can enhance investor confidence and create opportunities for increased profitability. (Brigham and Houston 2020) explain that adequate liquidity allows a company to take advantage of profitable investment opportunities and avoid costs associated with late payments or reliance on short-term funding sources. Several previous studies conducted by (Tahu and Susilo 2017), (Tui et al. 2017), (Nugraha et al. 2020), (Suhendry, Toni, and Simorangkir 2021), (Ripaluddin, Pasulu, and Taufiq 2023), and (Nguyen, Le, and Nguyen 2024) found that liquidity has a positive effects on profitability. Companies with adequate cash reserves tend to be more stable and flexible in investing in productive assets, which ultimately enhances their financial performance. This indicates that good liquidity management not only maintains financial stability but can also act as a catalyst in improving the company's profitability. Therefore, it can be concluded that the hypothesis in this study is: H1: Liquidity has a positive effects on profitability.

Leverage refers to the use of debt by a company in its capital structure, which can signal management's confidence in the company's ability to generate sufficient profits to meet its debt obligations. Based on Signaling Theory, an optimal level of leverage is considered a positive signal for investors, indicating that the company is willing to take on debt because it expects its future performance to cover the associated costs. According to (Brigham and Houston

2020), leverage can enhance the value of a company since debt is often a cheaper source of funding compared to equity, and the interest on debt can provide tax benefits. Research by (Suhendry, Toni, and Simorangkir 2021), and (Ripaluddin, Pasulu, and Taufiq 2023) found that leverage has a positive affects profitability, while (Nugraha et al. 2020) and (Bintara 2020) found that leverage has a negative effect on profitability. Therefore, it can be concluded that the hypothesis in this study is: H_2: Leverage has a positive effects on profitability.

Firm size is often measured by total assets or revenue, reflecting its capacity and operational scale. Larger companies generally have more resources, better access to markets, and the ability to take advantage of economies of scale. These advantages allow for a reduction in unit costs and an increase in operational efficiency, which in turn contributes to enhanced profitability. Furthermore, large companies typically have stronger bargaining power with suppliers and customers, which can result in higher profit margins and a reinforced market position. Additionally, company size is often seen as an indicator of financial strength and stability. From the perspective of Signaling Theory, a large size serves as a positive signal to investors and stakeholders, as it reflects quality and promising profitability potential. According to (Brigham and Houston 2020), larger companies usually have better access to various resources, such as funding, technology, and skilled labor, all of which support operational efficiency and facilitate higher profitability. Research by (Hirdinis 2019), (Natsir and Yusbardini 2020), and (Atiningsih and Izzaty 2021) found that company size has a positive effects on profitability. Thus, the hypothesis in this study is: H_3: Firm size has a positive effect on profitability.

Liquidity refers to a company's ability to meet its short-term obligations and is often viewed as a positive signal regarding the company's financial stability in the eyes of investors. According to Signaling Theory, companies with good liquidity levels send signals indicating that they have a solid financial capacity to handle their obligations, which can enhance market perception of the company's value. According to (Brigham and Houston 2020), adequate liquidity enables companies to maintain operational flexibility and avoid the risk of financial distress, ultimately increasing the company's attractiveness to investors. Research by (Kahfi, Pratomo, and Aminah 2018), (Hapsoro and Falih 2020), (Darmawan et al. 2020), and (Jihadi et al. 2021), found that liquidity has a positive effects on firm value, while (Reschiwati, Syahdina, and Handayani 2020), (Olivia and Wiksuana 2021), and (Ripaluddin, Pasulu, and Taufiq 2023) found that liquidity has a negative effects on firm value. Companies with high liquidity are perceived as more stable and attractive to investors, thereby increasing their market value. Thus, the hypothesis in this study is: H_4: Liquidity has a positive effect on firm value.

Leverage refers to a company's use of debt within its capital structure, which can signal management's confidence in the company's ability to generate sufficient profits to meet its debt obligations. According to Signaling Theory, an optimal level of leverage is considered a positive signal for investors, indicating that the company is willing to take on debt because it expects its future performance to cover the cost of that debt. According to (Brigham and Houston 2020), leverage can enhance company value because debt is often a cheaper source of financing compared to equity, and the interest on debt can also provide tax benefits. Several studies, including those by (Lestari 2023), (Jihadi et al. 2021), (Wahid, Ambarwati, and Satmoko 2022), (Yuliyanti et al. 2023), and (Zulfa, Azam, and Bandono 2024), have found that leverage has a positive effects on firm value, while (Fosu et al. 2016), (Kahfi, Pratomo, and Aminah 2018), (Simorangkir 2019), and (Ripaluddin, Pasulu, and Taufiq 2023), have found that leverage has a negative effects on firm value. Optimal leverage has the potential to increase firm value through financing efficiency and the tax benefits obtained. Therefore, it can be concluded that the hypothesis in this study is: H_5: Leverage has a positive effects on firm value.

Firm size is often associated with company value, where larger companies are viewed as more stable and capable of facing higher business risks compared to smaller companies. Based on Signaling Theory, company size can serve as a positive signal to investors, indicating that the company has financial resilience and adequate resources to support long-term growth. According to (Brigham and Houston 2020), larger companies typically have better access to financing and business networks, enabling them to achieve greater economies of scale and improved operational efficiency, thus enhancing their competitiveness and value in the eyes of investors. Several studies have been conducted, including those by (Hapsoro and Falih 2020), (Natsir and Yusbardini 2020), (Nurwulandari, Wibowo, and Hasanudin 2021), (Atiningsih and Izzaty 2021), (Lestari 2023), and (Zulfa, Azam, and Bandono 2024), which found that firm size has a positif effects on firm value, while (Susanti and Restiana 2018), (Hirdinis 2019), (Reschiwati, Syahdina, and Handayani 2020), (Wahid, Ambarwati, and Satmoko 2022) have found that firm size has a negative effects on firm value. A larger company size can strengthen investors' perception of the company's strength and sustainability, ultimately increasing the market value of the company. Therefore, it can be concluded that the hypothesis in this study is: H_6: Firm size has a positive effects on firm value.

Profitability is a key factor that reflects a company's financial performance and is often used as an indicator of the company's ability to generate profits. Based on Signaling Theory, high profitability is considered a positive signal for investors as it reflects management efficiency and good growth prospects, ultimately enhancing the attractiveness and value of the company. According to (Brigham and Houston 2020), consistent profitability allows a company to strengthen its financial position, support expansion, and enhance flexibility in the face of market uncertainties, all of which contribute to an increase in company value. Several previous studies have been conducted by (Sucuahi and Cambarihan 2016), (Tui et al. 2017), (Rosikah et al. 2018), (Zuhroh 2019), (Dwiastuti and Dillak 2019), (Sari and Sedana 2020), (Darmawan et al. 2020), (Sugosha and Artini 2020), (Natsir and Yusbardini 2020), (Jihadi et al. 2021), (Yondrichs et al. 2021), (Olivia and Wiksuana 2021), (Suhendry, Toni, and Simorangkir 2021), (Atiningsih and Izzaty 2021), (Handayani, Indarto, and Santoso 2022), (Faradila and Effendi 2023), (Buti and Wiyarni 2023), (Lestari 2023), and (Budiarti, Moeldjadi, and Wijayanti 2023), which found that profitability has a positive effects on company value, while (Zulfa, Azam, and Bandono 2024), found that profitability has a negative effects on company value. High profitability is considered to strengthen investor confidence in the company’s long-term potential, thereby increasing the company's market value. Therefore, it can be concluded that the hypothesis in this study is: H_7: Profitability has a positive effects on firm value.

Profitability is considered capable of mediating the effect of liquidity on firm value because companies with high liquidity have greater financial flexibility to fund operations and investments that support achieving higher profits. Based on Signaling Theory, companies that can maintain high liquidity send a signal of financial stability to investors, which can enhance positive perceptions of the company's profitability potential. According to (Brigham and Houston 2020), good liquidity can help companies maintain operational smoothness and capitalize on growth opportunities, which ultimately can enhance profitability. Research by (Putro and Risman 2021) found that profitability is able to mediate the effect of liquidity on firm value. Good liquidity supports higher profitability, which ultimately increases the company's market value in the eyes of investors. Therefore, it can be concluded that the hypothesis in this study is: H_8: Profitability is capable of mediating the effect of liquidity on firm value.

Profitability is seen as capable of mediating the effect of leverage on company value because well-managed leverage can enhance a company's opportunities to generate higher profits, which subsequently contributes to an increase in company value. Based on Signaling Theory, the appropriate use of leverage demonstrates management's confidence in the company's future prospects, sending a positive signal to investors that the company can manage debt risk while generating stable profitability. According to (Brigham and Houston 2020), leverage can be an effective tool for increasing profits, provided that the company can manage debt costs and take advantage of the tax benefits derived from interest payments. Research by (Suhendry, Toni, and Simorangkir 2021) found that profitability is able to mediate the relationship between leverage and firm value. Proper leverage can enhance profitability, which ultimately strengthens the firm value in the eyes of investors. Therefore, it can be concluded that the hypothesis in this study is: H_9: Profitability is capable of mediating the effect of leverage on firm value.

Profitability is believed to be capable of mediating the effect of firm size on firm value, where larger company size often indicates the capacity to generate higher profits, which in turn enhances firm value. Based on Signaling Theory, larger companies can provide positive signals to investors regarding stability and growth potential, indicating that they possess competitive advantages and sufficient resources to achieve sustainable profitability. According to (Brigham and Houston 2020), larger companies are typically associated with higher operational efficiency and better access to funding sources, which can improve profitability. Subsequent research by (Natsir and Yusbardini 2020) and (Atiningsih and Izzaty 2021) found that profitability is able to mediate the effect of firm size on firm value. Larger firm size increases profitability, which ultimately enhances the company's value in the eyes of investors. Therefore, it can be concluded that the hypothesis in this study is: H_{10}: Profitability is capable of mediating the effect of firm size on firm value.

Framework

Based on the theoretical basis and the results of previous studies and the problems that have been raised, then as a basis for formulating a hypothesis, the following framework is presented in the research model in the following figure:

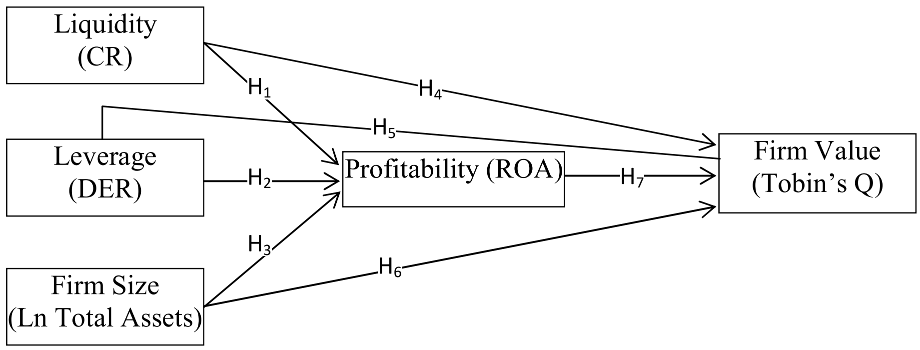

Figure 1. Conseptual Model Method

METHOD

The data used in this study is secondary data obtained the Indonesia Stock Exchange (IDX) website and the websites of the sample companies. The sample used in this research consists of companies listed in the LQ45 Index for the period 2018-2022. The sampling technique employed is purposive sampling, with the following criteria for the companies:

Table 1: Sample Selection Criteria

No	Criteria	Quantity
1	Companies listed in the LQ45 Index for the period of 2018-2022	**71**
2	Companies that are continuously listed in the LQ45 Index for the period of 2018-2022	**(48)**
3	Companies that are part of the banking sector	**(5)**
4	Total sample of companies	**18**
5	Total observation periods	**5**
6	Total research sample: 18 company × 5 periods	**90**

The study employs panel data analysis using EViews 13 software. This technique is appropriate as the data encompasses multiple companies (cross-sections) over several years (time series). Panel data analysis is utilized to control for unobserved variables, providing more efficient and unbiased estimates compared to separate cross-sectional or time series analyses.

Data analysis is performed using panel data in EViews 13, which includes multiple companies (cross-sections) over a defined time period (time series), resulting in more efficient estimates than those from separate cross-sectional or time series analyses. Before conducting regression tests, model selection is carried out using the Chow Test (to choose between the Fixed Effect Model (FEM) or Common Effect Model (CEM)), the Hausman Test (FEM vs. Random Effect Model (REM)), and the Lagrange Multiplier Test (REM vs. CEM).

In this study, firm value serves as the dependent variable, measured by Tobin's Q (the ratio of market value to book value of assets). Profitability is the mediating variable, measured by Return on Assets (ROA), which reflects the ability to generate profit. The independent variables include liquidity, measured by the Current Ratio (CR), indicating the ability to meet short-term obligations;

leverage, measured by the Debt to Equity Ratio (DER), which shows the use of debt to finance assets; and firm size, measured by the natural logarithm of total assets.

Operational variables can be summarized in the following table 2 :

Table 2 Operationalization of Variables

Comment [A5]: Gunakan bahasa Inggris

Variabel	**Definisi**	**Pengukuran**	**Skala**
Liquidity (X_1)	Liquidity ratios are ratios that show the relationship between a company's cash and other current assets with its current liabilities. (Brigham and Houston 2020)	$CR = \frac{\text{Cuurent Assets}}{\text{Current Liability}}$ (Adiputra and Hermawan 2020)	Rasio
Leverage (X_2)	The leverage ratio is a ratio used to measure how much of a company's activities are financed with debt, both short-term debt and long-term debt. (Brigham and Houston 2020)	$DER = \frac{\text{Total Utang}}{\text{Total Ekuitas}}$ (Bintara 2020)	Rasio
Firm Size (X_3)	Company size (firm size) is the scale of the company's size which can be classified in various ways, including total revenue, total assets and total equity. (Brigham and Houston 2020)	Firm Size = Ln (Total Asset) (Adiputra and Hermawan 2020)	Rasio
Profitability (Z)	Profitability is the end result of a number of policies and decisions made by a company. (Brigham and Houston 2020)	$ROA = \frac{\text{Earning After Tax}}{\text{Total Asset}}$ (Bintara 2020)	Rasio
Firm Value (Y)	Company value can be interpreted as the market value assessed through share prices and total equity owned by shareholders. (Brigham and Houston 2020)	$TOBIN'S\ Q = \frac{MVE + DEBT}{TA}$ (Adiputra and Hermawan 2020)	Rasio

RESULTS AND DISCUSSIONS

Descriptive Statistics

Based on purposive sampling, there are 18 companies that meet the criteria for this study, covering a total research period of 5 years, resulting in 90 observations. Below are the descriptive statistics for the research sample.

Table 3 Research Results

	CR	DER	SIZE	ROA	TOB_Q
Mean	2.069762	0.995962	31.74953	0.098193	2.370528
Median	1.793200	0.716950	31.73615	0.069050	1.328050
Maximum	5.654800	3.582700	33.65520	0.466600	18.35510
Minimum	0.335600	0.126200	30.42460	-0.057200	0.531200

Std. Dev.	1.222886	0.865086	0.858551	0.091028	3.136242
Observations	90	90	90	90	90

Source : secondary data (2024)

Based on Table 3, the minimum value for liquidity (Current Ratio) is 0.335600, observed in the company EXCL in 2019. The maximum value is 5.654800, recorded by the company INCO in 2022. The mean value is 2.069762, with a standard deviation of 1.222886. The minimum value for leverage (Debt to Equity Ratio) is 0.126200, shown by the company MNCN in 2022, while the maximum value is 3.582700, indicated by the company UNVR in 2022. The mean value for this variable is 0.995962, with a standard deviation of 0.865086.

Next, the minimum value for firm size is 30.42460, observed in the company MNCN in 2018. The maximum value is 33.65520, recorded by the company ASII in 2022. The mean value for this variable is 31.74953, with a standard deviation of 0.858551. The minimum value for profitability (ROA) is –0.057200, shown by the company EXCL in 2018. The maximum value is 0.466600, indicated by the company UNVR in 2018. The mean value for this variable is 0.098193, with a standard deviation of 0.091028. The minimum value for firm value (Tobin's Q) is 0.531200, observed in the company ANTM in 2021, while the maximum value is 18.35510, recorded by the company UNVR in 2018. The mean value for this variable is 2.370528, with a standard deviation of 3.136242.

Normality Test

Structure I : The Impact of Liquidity, Leverage, and Firm Size on Profitability

Table 4: Results of Normality Test for Structure I

Long-run Normality Test Date: 11/05/24 Time: 04:11 Sample: 2018 2022 Included observations: 90		
	Statistic	Prob.
Skewness	0.457209	0.323761
Skewness 3/5	2.651.624	0.004005
Kurtosis	1.378.591	0.084010
Normality	4.733.084	0.093805

Source : secondary data (2024)

Based on Table 4 above, it is noted that the probability value is 0.093805 (>0.05), which allows us to conclude that the data follows a normal distribution.

Structure II : The Impact of Liquidity, Leverage, Firm Size, and Profitability on Firm Value

Table 5: Results of Normality Test for Structure II

Long-run Normality Test		
Date: 11/05/24 Time: 04:11		
Sample: 2018 2022		
Included observations: 90		
	Statistic	Prob.
Skewness	-0.149635	0.559474
Skewness 3/5	1.724.144	0.042341

Kurtosis	1.647.849	0.049692
Normality	3.448.649	0.178293

Source : secondary data (2024)

Based on Table 5 above, it is noted that the probability value is 0.178293 (>0.05), which allows us to conclude that the data follows a normal distribution.

Model Selection Analysis

Structure I : The Impact of Liquidity, Leverage, and Firm Size on Profitability

Based on the Chow Test results, the Cross-section F value is 0.0000 < 0.05, indicating that the chosen model is the Fixed Effect Model. The Hausman Test results show that the Cross-section random value is 0.0005 < 0.05, confirming that the Fixed Effect Model is preferred. The Lagrange Multiplier Test, Breusch-Pagan, also yields a value of 0.0000 < 0.05, leading to the choice of the Random Effect Model. Therefore, it can be concluded that the best model for this study is the Fixed Effect Model.

Structure II : The Impact of Liquidity, Leverage, Firm Size, and Profitability on Firm Value

Similar to Structure I, the Chow Test results indicate a Cross-section F value of 0.0000 < 0.05, leading to the selection of the Fixed Effect Model. The Hausman Test results show a Cross-section random value of 0.0000 < 0.05, confirming the Fixed Effect Model. The Lagrange Multiplier Test also yields a value of 0.0000 < 0.05, supporting the Random Effect Model. Thus, the conclusion remains that the best model for this study is the Fixed Effect Model.

Panel Data Regression Analysis

Structure I : The Influence of Liquidity, Leverage, and Firm Size on Profitability

Table 6 Regression Test Structure I

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.414084	0.696202	-2.031140	0.0461
CR	0.013543	0.010871	1.245752	0.2171
DER	-0.078628	0.018517	-4.246255	0.0001
SIZE	0.049215	0.022228	2.214097	0.0301
	Effects Specification			
Cross-section fixed (dummy variables)				
R-squared	0.868238	Mean dependent var		0.098193
Adjusted R-squared	0.830046	S.D. dependent var		0.091028

Source : secondary data (2024)

Based on Table 6, the regression for Structure I is as follows:

ROA = -1.414084 + 0.013543*CR - 0.078628*DER + 0.049215*SIZE

The regression coefficient value of the liquidity measured by the current ratio is 0.013543 with a probability value of 0.2171 (> 0.05), so the liquidity has no effect on profitability. Based on these results, it can be concluded that H_1 is rejected. The regression coefficient value of leverage measured by the debt to equity ratio is -0.078628 with a probability value of 0.0001 (<0.05), so leverage has a negative effects on profitability. Based on these results, it can be concluded that H_2 is rejected. The regression coefficient value of company size followed by Size is 0.049215 with a probability value of 0.0301 (<0.05), so firm size has a postive effects on profitability. Based on these results, it can be concluded that H_3 is accepted. Furthermore, the Adjusted R-squared value is 0.830046, which allows us to conclude that the influence of liquidity, leverage, and firm size on profitability accounts for 83.00%, while the remaining 17.00% is attributed to other factors.

Structure II : The Influence of Liquidity, Leverage, Firm Size, and Profitability on Firm Value

Table 7 Regression Test Structure II

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	31.74085	16.91184	1.876842	0.0648
CR	0.328991	0.259389	1.268330	0.2090
DER	-1.647843	0.490714	-3.358054	0.0013
SIZE	-0.925157	0.542815	-1.704370	0.0929
ROA	9.809679	2.840672	3.453295	0.0010
	Effects Specification			
Cross-section fixed (dummy variables)				
R-squared	0.939092	Mean dependent var		2.370528
Adjusted R-squared	0.920282	S.D. dependent var		3.136242

Source : secondary data (2024)

Based on Table 7, the regression for Structure II is as follows:

$$TOB\_Q = 31.74085 + 0.328991*CR - 1.647843*DER - 0.925157*SIZE + 9.809679*ROA$$

The regression coefficient value of the liquidity measured by the current ratio is 0.328991 with a probability value of 0.2090 (> 0.05), so the liquidity has no effect on firm value. Based on these results, it can be concluded that H_4 is rejected. The regression coefficient value of leverage measured by the debt to equity ratio is -1.647843 with a probability value of 0.0013 (<0.05), so leverage has a negative effect on firm value. Based on these results, it can be concluded that H_5 is rejected. The regression coefficient value of company size followed by Size is -0.925157 with a probability value of 0.0929 (>0.05), so firm size has no negative effect on firm value. Based on these results, it can be concluded that H_6 is rejected. The regression coefficient value of profitability measured by the return on assets is 9.809679 with a probability value of 0.0010 (<0.05), so profitability has a postive effect on firm value. Based on these results, it can be concluded that H_7 is accepted. Furthermore, the Adjusted R-squared value is 0.920282, indicating that the influence of liquidity, leverage, firm size, and profitability on firm value accounts for 92.03%, with the remaining 7.97% influenced by other factors.

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Sobel Test

Table 8 Results of the Sobel Test

	Test Statistic	**Std. Error**	**p-value**
CR→ ROA→ Tob. Q	1,17186757	0,11336817	0,24125023
DER→ ROA→ Tob. Q	-2,67915963	0,28789454	0,00738072
SIZE→ ROA→ Tob. Q	1,86389404	0,25901867	0,06233659

Source : secondary data (2024)

From the results of the Sobel test, a *p*-value of 0.24125023 (>0.05) was obtained with a test statistic of 1.17186757 so that H_8 was rejected. Thus, it can be concluded that profitability is unable to mediate the effect of liquidity on firm value. The Sobel test results show a *p*-value of 0.00738072 (< 0.05) with a test statistic of -2.67915963, leading to the acceptance of H_9. This concludes that profitability can mediate the effect of leverage on firm value. The Sobel test results indicate a *p*-value of 0.06233659 (> 0.05) with a test statistic of 1.86389404, leading to the rejection of H_{10}. Thus, it can be concluded that profitability cannot mediate the effect of firm size on firm value.

The Effect of Liquidity on Profitability

This study found that liquidity as measured by the Current Ratio (CR) does not have a positive effect on profitability in LQ 45 index companies. According to Signaling Theory, high liquidity can provide a positive signal to investors regarding the company's financial stability, but if it is not used productively, its impact on profitability is limited. (Brigham and Houston 2020) support this view by stating that high liquidity is often maintained for safety purposes, but if the funds are only stored or allocated for less productive activities, its effect on profitability remains minimal.

This finding suggests that although LQ45 companies generally have good financial performance and high liquidity, their ability to meet short-term obligations does not always have a direct impact on increasing profits. This may be due to the less than optimal efficiency of using current assets, such as inventory and receivables, which may not be allocated productively to support revenue-generating activities. In addition, the profitability of LQ45 companies is more likely to be influenced by other factors such as operational strategy, cost structure, leverage, or dividend policy, which are more dominant in influencing financial results. This finding underlines that while high liquidity is important for maintaining financial stability, companies need to ensure that liquid assets are managed efficiently and directed towards investments or operational activities that can increase profitability. This finding is inconsistent with previous studies by (Tahu and Susilo 2017), (Tui et al. 2017), (Nugraha et al. 2020), (Suhendry, Toni, and Simorangkir 2021), (Ripaluddin, Pasulu, and Taufiq 2023), and (Nguyen, Le, and Nguyen 2024) found that liquidity has a positive effect on profitability, but this finding is inconsistent with previous studies by (Krismunita and Imronudin 2021) and (Handayani, Indarto, and Santoso 2022), which found that liquidity did not significantly affect profitability. Thus, this finding reinforces the idea that liquidity, as measured by CR, only provides limited benefits to profitability if not accompanied by an effective asset utilization strategy.

The Effect of Leverage on Profitability

This study found that leverage, as measured by the Debt to Equity Ratio (DER), has a negative effect on profitability, as measured by Return on Assets (ROA), in companies listed in the LQ45 index on the Indonesia Stock Exchange. Based on Signal Theory, optimal leverage can send a positive signal to investors, indicating that the company is confident in managing debt to maximize profitability. According to (Brigham and Houston 2020), well-managed leverage can provide tax benefits by reducing taxable income through interest expenses; however, excessive debt use increases the risk of bankruptcy.

In practice, companies in the LQ45 index often utilize debt to enhance operations and expand their markets, particularly when investment opportunities are abundant but internal resources are limited. These findings indicate that higher reliance on debt financing among these leading companies tends to reduce their ability to generate profits from their assets. A high DER typically leads to increased interest expenses and fixed financial obligations, which ultimately erode the company's net profit.

Moreover, a high DER reflects greater financial risk, which can limit a company's operational flexibility in seizing strategic opportunities. The negative impact on profitability may also result from inefficient allocation of debt funds, where investments fail to generate returns higher than the cost of borrowing. For LQ45 companies, which are recognized for their superior financial and operational performance, these results underscore the importance of prudent debt management. While debt can be a tool for driving growth, excessive reliance without careful planning can harm profitability. Therefore, maintaining an optimal balance between debt and equity in the capital structure is crucial to sustaining profitability while managing financial risks effectively.

The findings of this study are inconsistent with previous research by (Suhendry, Toni, and Simorangkir 2021), and (Ripaluddin, Pasulu, and Taufiq 2023) which found that leverage positively affects profitability. However, the results align with studies by (Nugraha et al. 2020) and (Bintara 2020), which found that leverage has a negative effect on profitability.

The Effect of Firm Size on Profitability

This study found that company size, measured using the natural logarithm of total assets (Ln Total Assets), has a positive effect on profitability, as measured by Return on Assets (ROA), in companies listed in the LQ45 index on the Indonesia Stock Exchange. Based on Signal Theory, a larger company sends a positive signal to investors about stability and growth potential, which enhances confidence in the company's ability to generate profits. According to (Brigham and Houston 2020), larger companies typically have better access to resources, such as funding, technology, and skilled labor, which supports operational efficiency and profitability.

These findings suggest that large companies in the LQ45 index, which generally have substantial assets, are able to leverage economies of scale and competitive advantages to improve operational efficiency and generate higher profits. As leading companies with strong reputations, LQ45-listed firms usually have easier access to capital markets, allowing them to obtain financing at relatively lower costs. Furthermore, these large companies have greater capabilities in product diversification, market penetration, and risk management, all of which contribute to improved profitability. The large size of these companies also gives them strong bargaining power with suppliers and customers, creating opportunities to enhance profit margins.

However, these findings also emphasize the importance of effective asset management, even for large companies listed in LQ45. Large assets will not provide maximum benefits if they are not utilized efficiently to support value-generating activities. Therefore, companies must continuously improve their asset management strategies to ensure a positive contribution to profitability. These results indicate that company size is one of the key factors that can support profitability, especially in a competitive business environment like the LQ45 index. Large companies that successfully leverage economies of scale and competitive advantages tend to have better financial performance compared to smaller companies.

This finding is consistent with previous research conducted by (Hirdinis 2019), (Natsir and Yusbardini 2020), and (Atiningsih and Izzaty 2021), which found that company size influences profitability, as larger companies can optimize their assets for productive activities and achieve higher profits.

The Effect of Liquidity on Firm Value

This study shows that liquidity, measured using the Current Ratio (CR), has no effect on firm value, measured by Tobin's Q, for companies listed on the LQ45 index on the Indonesia Stock Exchange. According to Signal Theory, high liquidity should indicate financial stability, but if current assets are not productively invested in ventures with high returns, their impact on firm value remains limited. (Brigham and Houston 2020) also emphasize that excessive liquidity may signal inefficient use of assets, as liquid assets not allocated to productive investments do not directly contribute to increasing firm value.

In practice, many companies in the LQ45 index maintain high liquidity as a reserve against economic uncertainty, but they tend not to use it for long-term value growth. These findings indicate that a company's ability to meet its short-term obligations is not a primary factor influencing the market's perception of firm value among these prominent companies. Excessive liquidity in large companies, such as those listed in LQ45, may reflect inefficient cash management. Investors might view this as an indication that available funds are not being utilized for productive investment opportunities, such as business expansion, product innovation, or diversification strategies. Consequently, the market prioritizes other factors, such as profitability, growth prospects, and operational efficiency, when assessing firm value.

Companies in the LQ45 index generally have easy access to low-cost external financing due to their reputation and credibility. Therefore, liquidity in the form of high current assets may be less relevant compared to long-term investment and growth strategies. Furthermore, the capital market tends to value companies that enhance operational efficiency and allocate resources optimally rather than those that merely maintain high liquidity.

These results also reflect that the Indonesian capital market, particularly in the LQ45 context, is more influenced by strategic indicators such as return on investment, earnings stability, and innovation rather than merely the company's ability to meet short-term obligations. Thus, while liquidity remains essential for maintaining operational stability, LQ45 companies need to focus on strategies that enhance added value and attract investor interest.

These findings align with previous research suggesting that liquidity does not always have a direct impact on firm value, particularly in large and well-established companies. However, it is crucial for companies to maintain a balance of sufficient liquidity, not only to ensure operational stability but also to support the implementation of growth strategies that can increase firm value in the eyes of investors.

The results of this study contradict those of (Kahfi, Pratomo, and Aminah 2018), (Hapsoro and Falih 2020), (Reschiwati, Syahdina, and Handayani 2020), (Darmawan et al. 2020), (Jihadi et al. 2021), and (Ripaluddin, Pasulu, and Taufiq 2023), who found that liquidity positively affects firm value. However, the findings are consistent with (Reschiwati, Syahdina, and Handayani 2020), (Olivia and Wiksuana 2021), and (Ripaluddin, Pasulu, and Taufiq 2023), (Adiputra and Hermawan 2020), (Putro and Risman 2021), (Suhendry, Toni, and Simorangkir 2021), (Nurwulandari, Wibowo, and Hasanudin 2021), (Yondrichs et al. 2021), (Wahid, Ambarwati, and Satmoko 2022), (Handayani, Indarto, and Santoso 2022), (Budiarti, Moeldjadi, and Wijayanti 2023), (Yuliyanti et al. 2023), dan (Zulfa, Azam, and Bandono 2024), who found that liquidity has no effect on firm value.

The Effect of Leverage on Firm Value

This study found that leverage, as measured by the Debt to Equity Ratio (DER), has a negative effect on firm value as measured by Tobin's Q, in companies listed in the LQ45 index on the Indonesia Stock Exchange. According to Signal Theory, appropriate leverage sends a positive signal to investors that the company can manage debt to improve performance and value. (Brigham and Houston 2020) noted that leverage can offer tax benefits through interest deductions; however, excessive debt increases the risk of bankruptcy, which has the potential to reduce the perception of the company's value. In practice, LQ45 index companies often use leverage to strengthen capital and expand the market, thereby increasing their attractiveness to investors.

This negative relationship suggests that leading companies in the LQ45 that have high leverage levels tend to experience a decline in the company's value perceived by the market. In the context of LQ45 companies, which generally have a good reputation and easier access to external financing, high leverage can raise concerns among investors regarding financial risk. Heavy reliance on debt financing can increase interest expenses, thereby reducing net income available to shareholders. This can also exacerbate liquidity risk, especially in uncertain economic conditions.

Furthermore, high DER in LQ45 companies can be seen as an indication of lack of efficiency in capital structure management. Although these companies usually have the capacity to attract investment due to their reputation and credibility, excessive use of debt can reduce their financial flexibility in allocating funds to strategic growth opportunities, such as business expansion, diversification, or product innovation.

From a market perspective, investors tend to focus more on other performance indicators, such as profitability, operational efficiency, and growth stability, compared to high levels of leverage. Excessive leverage can also create the perception that the company is riskier and less oriented towards long-term growth, which ultimately reduces the company's market value as reflected in Tobin's Q.

The results of this study imply that companies in the LQ45 index need to maintain a balance between the use of debt and equity in their capital structure.

Focusing on operational efficiency, financial stability, and sustainable growth strategies is more likely to attract investors and increase the company's value in the eyes of the market.

The results of the study are not in line with the results of studies conducted by (Lestari 2023), (Jihadi et al. 2021), (Wahid, Ambarwati, and Satmoko 2022), (Yuliyanti et al. 2023), and (Zulfa, Azam, and Bandono 2024), which found that leverage has a positive effect on firm value. However, the results of this study are in line with the results of studies conducted by (Fosu et al. 2016), (Kahfi, Pratomo, and Aminah 2018), (Simorangkir 2019), and (Ripaluddin, Pasulu, and Taufiq 2023), which found that leverage has a negative effect on firm value.

The Effect of Firm Size on Firm Value

The research findings indicate that firm size, measured by Ln Total Assets, does not have a negative effect on firm value, measured by Tobin's Q. This means that the total assets owned by a company do not significantly impact the perceived market value of the firm in a way that decreases it. In the context of signaling theory, large companies with greater resources and stability do not necessarily send positive signals to investors, especially if they face managerial challenges or operational inefficiencies. According to (Brigham and Houston 2020), in a competitive business environment, firm size alone is not a determining factor of value.

Firm size is often seen as an indicator of operational strength and financial stability. Companies with substantial assets generally possess a higher capacity to operate on a larger scale, diversify revenue streams, and mitigate external risks. However, in this case, the findings suggest that merely owning significant assets is insufficient to produce either a negative or positive impact on firm value.

The market tends to evaluate more than just the size of assets, focusing instead on how effectively a company manages and utilizes those assets to generate revenue, profit, and returns on investment. If a company fails to optimize asset utilization, having a larger size does not necessarily provide a competitive advantage. Conversely, the market is likely to prioritize operational efficiency, asset productivity, and the long-term investment strategies implemented by the company.

In the context of large companies such as those listed in the LQ45 index, firm size may not be the primary factor influencing value. These companies typically have other advantages, such as easy access to financing, strong reputations, and opportunities to achieve economies of scale. Therefore, the market is more inclined to assess performance based on other indicators, such as profitability, innovation, revenue growth, or business diversification, rather than merely the size of the company's assets.

These findings differ from those of previous studies by (Hapsoro and Falih 2020), (Natsir and Yusbardini 2020), (Nurwulandari, Wibowo, and Hasanudin 2021), (Atiningsih and Izzaty 2021), (Lestari 2023), and (Zulfa, Azam, and Bandono 2024), which found that firm size has a positive effect on firm value. Similarly, they contrast with studies by (Susanti and Restiana 2018), (Hirdinis 2019), (Reschiwati, Syahdina, and Handayani 2020), and (Wahid, Ambarwati, and Satmoko 2022), which found that firm size negatively affects firm value. However, these results align with findings by (Adiputra and Hermawan 2020), and (Yulandri, Hertina, and Asih 2023), which found that firm size does not have a negative impact on firm value.

The Effect of Profitability on Firm Value

The research findings indicate that profitability, measured using Return on Assets (ROA), has a positive effect on firm value, as measured by Tobin's Q. This implies that the higher a company's ability to generate profits from its total assets, the higher the firm's value perceived by the market.

High profitability reflects a company's efficiency in utilizing its assets to generate income. In financial theory, strong profitability sends a positive signal to investors about the company's financial health and its capacity to deliver sustainable returns. This aligns with Signaling Theory, which posits that good financial performance builds investor confidence and enhances the company's attractiveness in capital markets. As noted by (Brigham and Houston 2020), in a competitive business environment, investors tend to focus on financial performance as an indicator of growth potential, where strong profitability fosters trust in the company's capacity for expansion.

A high ROA also demonstrates effective asset management and significant net profit generation. Consequently, companies with high ROA are considered more appealing as they signify operational efficiency and the potential to provide substantial returns to shareholders.

In the context of companies listed in the LQ45 index, the positive effect of profitability on firm value becomes even more relevant. These firms typically have better access to resources and larger business opportunities, making the profits they generate more impactful on their market value. A high Tobin's Q value in such companies reflects market appreciation for their efficiency and profitability performance.

These findings are consistent with previous studies conducted by (Sucuahi and Cambarihan 2016), (Tui et al. 2017), (Rosikah et al. 2018), (Zuhroh 2019), (Dwiastuti and Dillak 2019), (Sari and Sedana 2020), (Darmawan et al. 2020), (Sugosha and Artini 2020), (Natsir and Yusbardini 2020), (Jihadi et al. 2021), (Yondrichs et al. 2021), (Olivia and Wiksuana 2021), (Suhendry, Toni, and Simorangkir 2021), (Atiningsih and Izzaty 2021), (Handayani, Indarto, and Santoso 2022), (Faradila and Effendi 2023), (Buti and Wiyarni 2023), (Lestari 2023), and (Budiarti, Moeldjadi, and Wijayanti 2023), which also found that profitability positively influences firm value.

Profitability as a Mediator of the Effect of Liquidity on Firm Value

This study reveals that profitability, measured using Return on Assets (ROA), is unable to mediate the effect of liquidity, measured by the Current Ratio (CR), on firm value, measured by Tobin's Q. This indicates that while liquidity is an important factor, profitability does not always function as a linking element that strengthens the relationship. In the context of signaling theory, good liquidity can provide a positive signal about a company’s financial health. However, if profitability is low, investors may remain skeptical about the company’s long-term growth prospects, thereby hindering an increase in firm value. (Brigham and Houston 2020) state that companies with high liquidity but low profitability are often perceived as high-risk, reducing their attractiveness to investors.

These findings suggest that although liquidity reflects a company's ability to meet its short-term obligations, it does not significantly influence firm value through the profitability pathway. In this context, profitability does not serve as a mediator that strengthens the relationship between liquidity and firm value.

From a liquidity perspective, the CR is often used to assess a company's ability to maintain short-term financial stability. However, a high liquidity ratio does not necessarily indicate efficient utilization of assets or working capital to generate profits. If a company merely maintains liquidity without utilizing excess current assets to support operational or investment activities, its impact on profitability—and consequently on firm value—becomes limited.

Profitability, represented by ROA, typically reflects a company's efficiency in managing assets to generate profits. In many studies, profitability is expected to serve as a mediator in the relationship between other financial variables and firm value. However, this study reveals that ROA cannot strengthen the relationship between CR and Tobin's Q. This may be because high liquidity does not always generate sufficient profits to influence market perceptions of firm value. In other words, the market may not focus solely on liquidity and profitability but also consider other variables, such as growth, innovation, or investment strategies.

This study, conducted on companies listed in the LQ45 index, further validates these findings. Companies within the LQ45 index typically have greater access to resources and business opportunities, making their liquidity more stable. However, in a competitive environment, the market tends to evaluate companies based on other indicators such as operational efficiency, innovation, or long-term growth strategies, rather than solely focusing on the relationship between liquidity and profitability.

These findings align with studies by (Handayani, Indarto, and Santoso 2022) and (Ripaluddin, Pasulu, and Taufiq 2023), which also found that profitability does not mediate the effect of liquidity on firm value. Liquidity can directly impact firm value without requiring profitability as a mediator, highlighting that companies may have strong cash flows but are inefficient in generating profits. These results underscore the complexity of the relationship between liquidity, profitability, and firm value, where other factors may play a more dominant role in shaping investor perceptions.

Profitability as a Mediator of the Effect of Leverage on Firm Value

The research findings indicate that profitability, as measured by Return on Assets (ROA), plays a crucial role as a mediator in the relationship between leverage, measured by the Debt to Equity Ratio (DER), and firm value, measured by Tobin's Q. In other words, the influence of leverage on firm value is not solely direct but also involves profitability as a connecting pathway.

High leverage, as reflected by a high DER, indicates that a company significantly utilizes debt in its capital structure. This can provide strategic advantages if the debt is allocated to productive investments, leading to higher profits. However, high leverage also entails substantial financial risks, such as the potential for default, which may diminish investor confidence. In this context, profitability serves as a key indicator of the company's efficiency in utilizing its assets to generate profits while managing the risks associated with debt usage.

When a company is able to optimally use debt to boost productivity and generate substantial net income, it reflects sound financial management. High ROA signals to the market that the company effectively manages its assets, even under significant debt obligations. This, in turn, enhances investor confidence in the company's ability to sustain growth, thereby increasing firm value, as evidenced by an improvement in Tobin's Q.

Under the framework of signaling theory, companies with strong profitability send positive signals to investors, demonstrating their ability to not only manage leverage-related risks but also deliver significant returns. High profitability creates a perception that the company has solid fundamentals, strong competitiveness, and promising long-term growth prospects, thereby boosting its value in the eyes of the market. (Brigham and Houston 2020) emphasize that as long as companies can generate sufficient profits to cover debt costs, leverage can enhance shareholder returns.

This study underscores the importance of proper leverage management, with profitability serving as a critical success factor. Leverage utilized without sufficient profitability may only amplify risks. However, when accompanied by improved operational efficiency, as reflected by a higher ROA, its impact on firm value becomes more significant. Thus, companies that successfully manage this relationship are more likely to attract investor interest and enhance their competitiveness in the market.

These findings align with the research by (Suhendry, Toni, and Simorangkir 2021), which also found that profitability mediates the relationship between leverage and firm value. Profitability plays a vital role in bridging the gap between leverage and firm value, as companies that efficiently manage debt and generate profits tend to have higher perceived value among investors. This demonstrates that profitability not only reflects a company's financial health but also enhances investors' perceptions of the risks and potential returns associated with the use of debt.

Profitability as a Mediator of the Effect of Firm Size on Firm Value

The study conducted on companies listed in the LQ45 index reveals that profitability, measured using Return on Assets (ROA), fails to mediate the influence of firm size, measured by Ln Total Assets, on firm value, measured by Tobin's Q. This finding indicates that, although companies in the LQ45 index generally possess substantial assets, the profitability generated from these assets is not sufficiently significant to strengthen the relationship between firm size and firm value.

Companies within the LQ45 index are known for their large market capitalization and extensive access to capital markets. However, the results show that possessing large assets alone is insufficient to enhance firm value through profitability. One possible explanation is that these sizable assets are not yet optimally managed to generate profits. High operational costs, long-term investments that have not yielded results, or reliance on specific markets could hinder the efficiency of asset utilization.

Moreover, investors focusing on LQ45 companies tend to consider various factors beyond firm size and profitability. Indicators such as innovation, sustainability, long-term growth strategies, and global competitiveness are often prioritized. Thus, having substantial assets without accompanying operational efficiency and effective profit management might not significantly impact investors' perception of firm value.

Under signaling theory, large firms often signal stability and business continuity to investors; however, firm size alone does not guarantee high profitability. High profitability can deliver positive signals about a company's financial efficiency and sustainability. (Brigham and Houston 2020) explain that in practice, large companies with extensive assets may not always efficiently manage their resources, leading to lower profitability. In this case, if ROA is not sufficiently high, investors remain skeptical about the company's ability to optimally utilize its assets. This highlights the need for LQ45 companies to focus not only on asset accumulation but also on efficient management to generate significant profits.

The findings of this study carry important implications for companies in the LQ45 index. These companies need to improve the efficiency of managing their large assets to boost net profits. Additionally, it is crucial for them to develop long-term strategies involving innovation, business diversification, and better cost management. Through such efforts, these companies can send positive signals to investors about their financial fundamentals while simultaneously enhancing firm value.

This research aligns with the findings of (Hirdinis 2019), which showed that profitability does not mediate the relationship between firm size and firm value. This underscores the complexity of the relationship between firm size, profitability, and firm value, where profitability may not always act as a determining factor in the context of firm size. Despite the advantages of large assets and stable liquidity that LQ45 companies hold, their success in increasing firm value depends on their ability to manage those assets efficiently. By focusing on profitability and other relevant factors, companies in the LQ45 index can enhance their competitiveness and attractiveness to investors.

CONCLUSIONS

This study provides significant contributions to the development of theory and practice in the capital market, particularly in the context of the relationships between liquidity, leverage, firm size, profitability, and firm value. Theoretically, this research enriches financial literature by demonstrating that profitability mediates the effect of leverage on firm value but does not mediate the effects of liquidity and firm size. These findings offer new insights into the internal mechanisms of companies within the context of the Indonesian capital market, especially for companies listed in the LQ45 index. Within the framework of Signaling Theory, this study highlights that signals generated from firm size and liquidity are only effective if supported by operational efficiency that yields significant profits. Furthermore, the research emphasizes the importance of considering mediating factors such as profitability in models that link capital structure to firm value, providing a more comprehensive foundation for understanding interactions among financial variables.

Practically, this research offers critical implications for corporate management, investors, and policymakers. For corporate management, the

Comment [A6]: Kesimpulan berisikan:
- Hasil inti temuan penelitian
- Implikasi teoritis dan praktis
- Keterbatasan penelitian
- Saran penelitian lanjutan atas keteberbatasan yang ada. Mgkn bisa ditambah saran lain bagi perusahaan dan investor.

Comment [A7]: Tambahkan kesimpulan mengenai hasil temuan. Sedangkan implikasi teoritis dan praktis lebih diringkas "sampaikan yang pokok/penting" findings underscore the importance of prudent leverage management. High leverage without adequate profitability can reduce firm value. Therefore, management must ensure that debt is used productively in profit-generating activities. Additionally, large liquidity and firm size should be managed efficiently to support productive investments and innovation, thereby creating added value. For investors, the findings provide guidance to exercise caution when evaluating companies with high leverage but low profitability. Profitability becomes a crucial indicator in assessing whether a company can manage financial risks and generate adequate returns. Meanwhile, for policymakers, this research highlights the importance of supporting financial transparency and efficient asset management to enhance investor confidence in the capital market.

In the context of the Indonesian capital market, these findings suggest that companies listed in the LQ45 index need to prioritize the efficient management of assets and leverage to enhance profitability and firm value. Large assets or high liquidity do not automatically improve firm value without optimal management. This study also emphasizes the importance of long-term growth strategies, including innovation and business diversification, as key factors supporting corporate competitiveness.

This research utilizes data from companies in the LQ45 index during the 2018–2022 period. This limitation may restrict the generalization of the findings to all companies listed on the Indonesia Stock Exchange (IDX) or companies in other sectors. Although the study considers several important variables such as liquidity, leverage, firm size, and profitability, many other variables, such as innovation, risk management, or corporate governance quality, could also influence firm value but were not included in the research model. The study employs panel data analysis with a Fixed Effects Model, which is appropriate for panel data but may not fully capture all dynamics within companies, particularly those related to external factors such as macroeconomic conditions or regulatory changes.

To expand the utility of these findings, future research is recommended to include companies outside the LQ45 index, incorporate additional variables such as innovation or corporate governance, and use more complex methodologies such as structural equation modeling (SEM). With these approaches, future studies could provide deeper insights into the financial dynamics of the Indonesian capital market.

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01 Desember 2024

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Adi Indra <adindr@gmail.com> 1 Desember 2024 pukul 13.52
Kepada: Zakaria Batubara <jurnal.stiesyariahbks@gmail.com>

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THE ROLE OF PROFITABILITY IN MEDIATING DETERMINANTS OF FIRM VALUE

ABSTRACT

This study aims to analyze the role of profitability in mediating the relationship between liquidity, leverage, and firm size in relation to firm value. The data used in this study are secondary data obtained from the Indonesia Stock Exchange websites. The population consists of 71 companies listed in the LQ45 index for the period 2018-2022. The study sample includes 18 non-bank companies within the LQ45 index, selected through purposive sampling, yielding a total of 90 observations over five years. Data analysis was conducted using panel data with EViews 13 software. model selection was carried out through the Chow Test, Hausman Test, and Lagrange Multiplier Test. The results indicate that liquidity has no effect on profitability, whereas leverage and firm size significantly impact profitability. Furthermore, leverage influences firm value, while liquidity and firm size show no significant effect on firm value. Profitability does not mediate the effect of liquidity and firm size on firm value but does mediate the effect of leverage on firm value. Theoretically, this research complements previous theories and serves as a reference for future studies. Practically, investors can utilize this information to exercise caution when assessing companies with high leverage levels but low profitability.

Keywords: Profitability, Liquidity, Leverage, Firm Size, Firm Value.

INTRODUCTION

Firm value is one of the primary indicators used by investors to assess a company's performance and future prospects. High firm value reflects investor confidence in the company's ability to generate profits and sustain itself over the long term. According to Anggeriani, Fachrudin, and Silalahi (2018), maximizing firm value is crucial for a company, as it also maximizes shareholder wealth, which is the primary objective of a business. Firm value has become a primary focus in the business and academic worlds as it reflects investors' perceptions of a company's prospects and performance. However, in practice, firm value is not always stable and can be influenced by various internal and external factors. For instance, during periods of global economic uncertainty, such as a pandemic or financial crisis, firm value tends to fluctuate due to changes in investors' perceptions of risks and opportunities. Additionally, firm value is often affected by market dynamics, government policies, and interest rate fluctuations. On the other hand, companies with strong financial performance, as indicated by high profitability or an optimal capital structure, do not always sustain their firm value if not complemented by innovation, reputation, and effective risk management. This phenomenon illustrates the complexity of the relationship between a company's internal performance, external conditions, and market behavior in determining firm value.. Numerous studies have examined factors affecting firm value, yet their findings have been inconsistent. Factors such as liquidity, leverage, firm size, and profitability play a significant role in influencing firm value, as each reflects key aspects of a company's financial health and prospects. Liquidity, which represents a company's ability to meet short-term obligations, signals financial stability that can enhance investor confidence, although excessively high liquidity may indicate inefficient asset utilization. Leverage, as a measure of debt usage in the capital structure, can provide benefits through tax savings (tax shields), but excessive leverage increases bankruptcy risk, which can harm firm value. Firm size is often associated with operational stability and easier access to financing, which can boost investor appeal, although overly large firms may face inefficiencies. Meanwhile, profitability serves as a primary indicator of a company's success in generating profits, reflecting better potential investment returns. These four factors are interconnected and are central to investors' evaluations of a company's growth prospects and risks, making changes in any of these factors significantly impactful on firm value.

High liquidity signals to investors that the company has sound financial health and a low risk of bankruptcy. However, excessive liquidity may also indicate that a company is not optimally utilizing its financial resources. Several studies, including Kahfi, Pratomo, and Aminah (2018), Hapsoro and Falih (2020), Reschiwati, Syahdina, and Handayani (2020), Darmawan et al. (2020), Jihadi et al. (2021), and Ripaluddin, Pasulu, and Taufiq (2023) liquidity has a positive effect on firm value. In contrast, studies by Tui et al. (2017), Adiputra and Hermawan (2020), Sari and Sedana (2020), Putro and Risman (2021), Suhendry, Toni, and Simorangkir (2021), Nurwulandari, Wibowo, and Hasanuddin (2021), Yondrichs et al. (2021), Wahid, Ambarwati, and Satmoko (2022), Handayani, Indarto, and Santoso (2022), Budiarti, Moeldjadi, and Wijayanti (2023), Yuliyanti et al. (2023), and Zulfa, Azam, and Bandono (2024) indicate that liquidity (CR) does not affect firm value.

The second factor affecting firm value is leverage. The leverage ratio is used to measure the extent to which a company's activities are financed by debt, including both short-term and long-term debt. A higher leverage ratio indicates a greater level of dependence on external parties (creditors) and a larger amount of interest expenses that the company must pay. Leverage reflects how much debt a company uses in its capital structure. When used appropriately, debt can provide tax benefits and increase earnings per share. However, excessive debt can lead to a higher risk of bankruptcy, which may diminish firm value. Several studies have been conducted, including those by Fosu et al. (2016), Kahfi, Pratomo, and Aminah (2018), Lestari (2023), Simorangkir (2019), Jihadi et al. (2021), Wahid, Ambarwati, and Satmoko (2022), Ripaluddin, Pasulu, and Taufiq (2023), Yuliyanti et al. (2023), and Zulfa, Azam, and Bandono (2024), which found that leverage significantly affects firm value. In contrast, research by Dwiastuti and Dillak (2019), Suhendry, Toni, and Simorangkir (2021), Almomani et al. (2022), Handayani, Indarto, and Santoso (2022), Yulandri, Hertina, and Asih (2023), and Habakkuk, Nduanti, and Wang'ombe (2023) found that leverage does not affect firm value.

Firm size is also a significant factor in determining firm value. Larger companies typically have better access to resources and capital markets, which can help them maintain stable performance and enhance firm value. However, company size can also lead to inefficiencies that ultimately negatively impact firm value. Several studies have been conducted, including those by Susanti and

Restiana (2018), Anggeriani, Fachrudin, and Silalahi (2018), Hirdinis (2019), Sughosa and Artini (2020), Nugraha et al. (2020), Reschiwati, Syahdina, and Handayani (2020), Hapsoro and Falih (2020), Natsir and Yusbardini (2020), Nurwulandari, Wibowo, and Hasanudin (2021), Atiningsih and Izzaty (2021), Wahid, Ambarwati, and Satmoko (2022), Lestari (2023), and Zulfa, Azam, and Bandono (2024), which found that firm size has a effects on firm value. In contrast, research by Tui et al. (2017), Dwiastuti and Dillak (2019), Adiputra and Hermawan (2020), Nurwulandari, Wibowo, and Hasanudin (2021), Handayani, Indarto, and Santoso (2022), Yulandri, Hertina, and Asih (2023), and Hechmi and Saanoun (2024) found that firm size (SIZE) does not affect firm value.

High profitability can enhance investor confidence, which in turn can increase firm value. Profitability is the end result of a series of policies and decisions made by the company (Brigham and Houston 2020). Several previous studies have been conducted, including those by Sucuahi and Cambarihan (2016), Tui et al. (2017), Rosikah et al. (2018), Zuhroh (2019), Dwiastuti and Dillak (2019), Sari and Sedana (2020), Darmawan et al. (2020), Sughosa and Artini (2020), Syamsudin et al. (2020), Natsir and Yusbardini (2020), Jihadi et al. (2021), Yondrichs et al. (2021), Olivia and Wiksuana (2021), Suhendry, Toni, and Simorangkir (2021), Atingsih and Izzaty (2021), Handayani, Indarto, and Santoso (2022), Faradila and Effendi (2023), Buti and Wiyarni (2023), Lestari (2023), Budiarti, Moeldjadi, and Wijayanti (2023), Zulfa, Azam, and Bandono (2024), and Yulianti et al (2024), which found that profitability affects firm value. In contrast, research conducted by Asyuyi, Wahyudi, and Mawardi (2018), Reschiwati, Syahdina, and Handayani (2020), Hapsoro and Falih (2020), Nurwulandari, Wibowo, and Hasanudin (2021), Ripaluddin, Pasulu, and Taufiq (2023), and Yulianti et al. (2023) found that profitability does not affect firm value.

Furthermore, profitability, which reflects a company's ability to generate profits, is considered a key factor that mediates the relationship between liquidity, leverage, and firm size on firm value. The liquidity of a company has an impact on its value, both directly and through profitability as a mediator. Adequate liquidity enables a company to meet its short-term obligations, providing confidence to investors about the company's financial stability, which can enhance firm value. However, high liquidity also needs to be balanced with effective management to avoid hindering asset productivity. With maintained liquidity, the company can operate efficiently, supporting an increase in profitability. High profitability indicates optimal company performance, thus enhancing its attractiveness to investors and ultimately increasing firm value. Several previous studies have been conducted, including those by Tahu and Susilo (2017), Tui et al. (2017), Nugraha et al. (2020), Bintara (2020), Suhendry, Toni, and Simorangkir (2021), Rpaluddin, Pasulu, and Taufiq (2023) and Nguyen, Le, and Nguyen (2024), which found that liquidity affects profitability. In contrast, research conducted by Krismunita and Imronudin (2021) and Handayani, Indarto, and Santoso (2022) found that liquidity does not affect profitability. Further research by Putro and Risman (2021) found that profitability can mediate the effect of liquidity on firm value. However, the studies by Handayani, Indarto, and Santoso (2022) and Ripaluddin, Pasulu, and Taufiq (2023) found that profitability is not capable of mediating the effect of liquidity on firm value.

Furthermore, a company's leverage has an important relationship with firm value, particularly when influenced by the mediating role of profitability. Optimal use of leverage allows a company to finance investments without sacrificing equity, thereby increasing potential profits and growth. However, high leverage also increases financial risk and interest costs, which can reduce net income. In this context, profitability mediates the relationship by demonstrating the company's effectiveness in managing debt to generate profits. If a company can efficiently use leverage to enhance profitability, it will attract investor interest and increase firm value. Conversely, if leverage fails to improve profitability, the financial risks borne by the company may negatively impact its value. Several previous studies have been conducted, including those by Nugraha et al. (2020), Bintara (2020), Suhendry, Toni, and Simorangkir (2021), and Ripaluddin, Pasulu, and Taufiq (2023), which found that leverage affects profitability. In contrast, research by Hamidah (2016), Makhdalena (2018), Rahamdhanti, Amaliawiati, and Nugraha (2021), and Handayani, Indarto, and Santoso (2022) found that leverage does not affect profitability. Additionally, the study by Suhendry, Toni, and Simorangkir (2021) found that profitability can mediate the relationship between leverage and firm value, while the research by Ripaluddin, Pasulu, and Taufiq (2023) found that profitability does not mediate the relationship between leverage and firm value.

The relationship between firm size and firm value through profitability is supported by research findings from Hirdinis (2019), Natsir and Yusbardini (2020), and Atiningsih and Izzaty (2021), which indicate that firm size affects profitability. In contrast, Tui et al. (2017) found that firm size does not influence profitability. Subsequent studies by Natsir and Yusbardini (2020) and Atiningsih and Izzaty (2021) found that profitability can mediate the effect of firm size on firm value. Meanwhile, Hirdinis (2019) found that profitability does not mediate the relationship between firm size and firm value.

This study examines the impact of liquidity, leverage, and firm size on firm value with profitability, measured through Return on Assets (ROA), as a mediating variable, and has yielded varied findings. Some studies found that ROA can mediate the effect of liquidity on firm value, as reported by (Putro and Risman 2021). However, other studies showed different results, such as the research conducted by Handayani, Indarto, and Santoso (2022), which concluded that profitability does not mediate the effect of liquidity on firm value. Similarly, in the context of leverage, research by Suhendry, Toni, and Simorangkir (2021) indicates that ROA can mediate the effect of leverage on firm value, while the study by Ripaluddin, Pasulu, Taufiq (2023) states otherwise. The inconsistency of these results creates a gap that highlights the need for further studies to clarify the role of ROA as an effective mediator in this model.

The novelty of this research lies in the comprehensive approach used to analyze the role of ROA as a mediating variable in the effects of liquidity, leverage, and firm size on firm value. While most previous studies have tended to examine these variables separately or have focused only on their direct effects on firm value, this study offers an integrated approach by evaluating all three variables simultaneously. This provides a new perspective that enriches the academic literature and generates deeper insights into the mediating role of ROA in enhancing firm value.

This research is highly urgent as it aims to address the inconsistencies in the results of previous studies. Considering that firm value is a primary reference for investors in making investment decisions, understanding the role of profitability as a mediating variable will provide practical guidance for companies in enhancing investor confidence and attractiveness. Thus, this study is relevant for financial managers in their efforts to maximize firm value through better management of liquidity, leverage, and firm size.

In terms of originality, this research offers a novel contribution by integrating these three variables into a single model and examining the effectiveness of profitability as a mediating factor. This study also utilizes more recent data and analysis methodologies tailored to the current economic conditions, making the results more relevant for practical guidance and corporate strategies.

The objective of this research is to examine and analyze whether ROA can mediate the effects of liquidity, leverage, and firm size on firm value, both directly and indirectly. Additionally, this study aims to comprehensively explain the extent to which these three variables influence firm value. The findings of this research are expected to contribute academically by enriching the literature on the role of profitability as a mediating variable. Practically, the results are anticipated to provide guidance for financial managers in making decisions related to liquidity management, leverage, and firm size, which ultimately can enhance profitability and firm value.

LITERATURE REVIEW

Signaling Theory

Signaling theory was proposed by Michael Spence in 1973, suggesting that asymmetric information between company managers and investors can be addressed through signals provided by management. In this context, companies use financial reports or strategic actions as signals to investors regarding the company's condition and prospects. Brigham and Houston (2020) explain that the information conveyed by management through financial statements, dividend policies, or investment decisions can serve as signals about the company's status and future potential to external parties. These signals help reduce the information asymmetry between managers and investors, assisting investors in making better investment decisions. Actions that are perceived as positive signals, such as increased profits or the announcement of new projects, can enhance investor confidence and have a positive impact on firm value.

Firm Value

Firm value represents the market's perception of the overall performance and future prospects of the company. According to Brigham and Houston (2020), firm value can be defined as the market value assessed through stock price and the total equity held by shareholders. Firm value is crucial because the primary objective of financial management is to maximize it for the benefit of shareholders. A common measure used to assess firm value is Tobin's Q, which is the ratio of the company's market value of assets (market capitalization) to the replacement cost of the company's assets.

Profitability

Profitability is a measure of a company's performance in generating profit relative to its sales, assets, or equity. According to Brigham and Houston (2020), profitability is a key indicator used to assess how efficiently a company's management utilizes its resources to generate earnings. High profitability indicates that the company has successfully managed its assets efficiently to generate profits, which is a sign of good financial performance. Profitability is also often used as a mediating variable that strengthens the relationship between other financial factors and company value, as good performance typically enhances investor confidence.

Liquidity

Liquidity refers to a company's ability to meet its short-term obligations as they come due without facing financial difficulties. According to Brigham and Houston (2020), liquidity is crucial for a company as it reflects the ability to convert current assets into cash to fulfill short-term liabilities. High liquidity can reduce the risk of bankruptcy because the company can meet its short-term obligations. However, excessive liquidity may also indicate inefficient cash management, as an excess of current assets can decrease profitability levels.

Leverage

Leverage refers to the use of debt financing to enhance the potential return to a company's shareholders. According to Brigham and Houston (2020), leverage reflects the extent to which a company utilizes debt in its capital structure, which can increase both risk and potential returns for shareholders. Leverage can provide benefits in the form of increased profits if the investments financed with debt yield returns greater than the cost of the debt itself. However, leverage also carries risks, particularly financial risk, because the higher the debt, the greater the obligation for interest and principal repayments that the company must fulfill. If a company fails to meet these obligations, it could lead to bankruptcy. Companies with high leverage have more debt compared to equity, which can provide tax benefits but also heightens financial risk. High leverage can increase the value of a company due to tax advantages, but if it becomes excessive, it may raise the risk of bankruptcy.

Firm Size

Firm size is an important factor in financial analysis and management strategy. According to Brigham and Houston (2020), firm size, measured by total assets or sales, reflects the capacity and stability of a company in its operations and can influence market perceptions. Firm size is often associated with the total assets owned, which reflects the magnitude of resources available to support business operations and expansion. Generally, the larger the company size, the greater its capacity to obtain financing from capital markets, whether through equity or debt.

Hypothesis Development

In signaling theory, high liquidity can serve as a positive signal for investors, indicating that the company has a good ability to meet its short-term obligations and manage cash efficiently, which in turn can enhance investor confidence and create opportunities for increased profitability. Brigham and Houston (2020) explain that adequate liquidity allows a company to take advantage of profitable investment opportunities and avoid costs associated with late payments or reliance on short-term funding sources. Several previous studies conducted by Tahu and Susilo (2017), Tui et al. (2017), Nugraha et al. (2020), Suhendry, Toni, and Simorangkir (2021), Ripaluddin, Pasulu, and Taufiq (2023), and Nguyen, Le, and Nguyen (2024) found that liquidity has a positive effects on profitability. Companies with adequate cash reserves tend to be more stable and flexible in investing in productive assets, which ultimately enhances their financial performance. This indicates that good liquidity management not only maintains financial stability but can also act as a catalyst in improving the company's profitability. Therefore, it can be concluded that the hypothesis in this study is: H1: Liquidity has a positive effects on profitability.

Leverage refers to the use of debt by a company in its capital structure, which can signal management's confidence in the company's ability to generate sufficient profits to meet its debt obligations. Based on Signaling Theory, an optimal level of leverage is considered a positive signal for investors, indicating that the company is willing to take on debt because it expects its future performance to cover the associated costs. According to Brigham and Houston (2020), leverage can enhance the value of a company since debt is often a cheaper source of funding compared to equity, and the interest on debt can provide tax benefits. Research by Suhendry, Toni, and Simorangkir (2021), and Ripaluddin, Pasulu, and Taufiq (2023) found that leverage has a positive affects profitability, while Nugraha et al. (2020) and Bintara (2020) found that leverage has a negative effect on profitability. Therefore, it can be concluded that the hypothesis in this study is: H_2: Leverage has a positive effects on profitability.

Firm size is often measured by total assets or revenue, reflecting its capacity and operational scale. Larger companies generally have more resources, better access to markets, and the ability to take advantage of economies of scale. These advantages allow for a reduction in unit costs and an increase in operational efficiency, which in turn contributes to enhanced profitability. Furthermore, large companies typically have stronger bargaining power with suppliers and customers, which can result in higher profit margins and a reinforced market position. Additionally, company size is often seen as an indicator of financial strength and stability. From the perspective of Signaling Theory, a large size serves as a positive signal to investors and stakeholders, as it reflects quality and promising profitability potential. According to Brigham and Houston (2020), larger companies usually have better access to various resources, such as funding, technology, and skilled labor, all of which support operational efficiency and facilitate higher profitability. Research by Hirdinis (2019), Natsir and Yusbardini (2020), and Atiningsih and Izzaty (2021) found that company size has a positive effects on profitability. Thus, the hypothesis in this study is: H_3: Firm size has a positive effect on profitability.

Liquidity refers to a company's ability to meet its short-term obligations and is often viewed as a positive signal regarding the company's financial stability in the eyes of investors. According to Signaling Theory, companies with good liquidity levels send signals indicating that they have a solid financial capacity to handle their obligations, which can enhance market perception of the company's value. According to Brigham and Houston (2020), adequate liquidity enables companies to maintain operational flexibility and avoid the risk of financial distress, ultimately increasing the company's attractiveness to investors. Research by Kahfi, Pratomo, and Aminah (2018), Hapsoro and Falih (2020), Darmawan et al. (2020), and Jihadi et al. (2021), found that liquidity has a positive effects on firm value, while Reschiwati, Syahdina, and Handayani (2020), Olivia and Wiksuana (2021), and Ripaluddin, Pasulu, Taufiq (2023) found that liquidity has a negative effects on firm value. Companies with high liquidity are perceived as more stable and attractive to investors, thereby increasing their market value. Thus, the hypothesis in this study is: H_4: Liquidity has a positive effect on firm value.

Leverage refers to a company's use of debt within its capital structure, which can signal management's confidence in the company's ability to generate sufficient profits to meet its debt obligations. According to Signaling Theory, an optimal level of leverage is considered a positive signal for investors, indicating that the company is willing to take on debt because it expects its future performance to cover the cost of that debt. According to Brigham and Houston (2020), leverage can enhance company value because debt is often a cheaper source of financing compared to equity, and the interest on debt can also provide tax benefits. Several studies, including those by Lestari (2023), Jihadi et al. (2021), Wahid, Ambarwati, and Satmoko (2022), Yuliyanti et al. (2023), and Zulfa, Azam, and Bandono (2024), have found that leverage has a positive effects on firm value, while Fosu et al. (2016), Kahfi, Pratomo, and Aminah (2018), Simorangkir (2019), and Ripaluddin, Pasulu, Taufiq (2023), have found that leverage has a negative effects on firm value. Optimal leverage has the potential to increase firm value through financing efficiency and the tax benefits obtained. Therefore, it can be concluded that the hypothesis in this study is: H_5: Leverage has a positive effects on firm value.

Firm size is often associated with company value, where larger companies are viewed as more stable and capable of facing higher business risks compared to smaller companies. Based on Signaling Theory, company size can serve as a positive signal to investors, indicating that the company has financial resilience and adequate resources to support long-term growth. According to Brigham and Houston (2020), larger companies typically have better access to financing and business networks, enabling them to achieve greater economies of scale and improved operational efficiency, thus enhancing their competitiveness and value in the eyes of investors. Several studies have been conducted, including those by Hapsoro and Falih (2020), Natsir and Yusbardini (2020), Nurwulandari, Wibowo, and Hasanudin (2021), Atiningsih and Izzaty (2021), Lestari (2023), and Zulfa, Azam, and Bandono (2024), which found that firm size has a positif effects on firm value, while Susanti and Restiana (2018), Hirdinis (2019), Reschiwati, Syahdina, and Handayani (2020), Wahid, Ambarwati, and Satmoko (2022) have found that firm size has a negative effects on firm value. A larger company size can strengthen investors' perception of the company's strength and sustainability, ultimately increasing the market value of the company. Therefore, it can be concluded that the hypothesis in this study is: H_6: Firm size has a positive effects on firm value.

Profitability is a key factor that reflects a company's financial performance and is often used as an indicator of the company's ability to generate profits. Based on Signaling Theory, high profitability is considered a positive signal for investors as it reflects management efficiency and good growth prospects, ultimately enhancing the attractiveness and value of the company. According to Brigham and Houston (2020), consistent profitability allows a company to strengthen its financial position, support expansion, and enhance flexibility in the face of market uncertainties, all of which contribute to an increase in company value. Several previous studies have been conducted by Sucuahi and Cambarihan (2016), Tui et al. (2017), Rosikah et al. (2018), Zuhroh (2019), Dwiastuti and Dillak (2019), Sari and Sedana (2020), Darmawan et al. (2020), Sughosa and Artini (2020), Natsir and Yusbardini (2020), Jihadi et al. (2021), Yondrichs et al. (2021), Olivia and Wiksuana (2021), Suhendry, Toni, and Simorangkir (2021), Atiningsih and Izzaty (2021), Handayani, Indarto, and Santoso (2022), Faradila and Effendi (2023), Buti and Wiyarni (2023), Lestari (2023), and Budiarti, Moeldjadi, and Wijayanti (2023), which found that profitability has a positive effects on company value, while Zulfa, Azam, and Bandono (2024), found that profitability has a negative effects on company value. High profitability is considered to strengthen investor confidence in the company's long-term potential, thereby increasing the company's market value. Therefore, it can be concluded that the hypothesis in this study is: H_7: Profitability has a positive effects on firm value.

Profitability is considered capable of mediating the effect of liquidity on firm value because companies with high liquidity have greater financial flexibility to fund operations and investments that support achieving higher profits. Based on Signaling Theory, companies that can maintain high liquidity send a signal of financial stability to investors, which can enhance positive perceptions of the company's profitability potential. According to Brigham and Houston (2020), good liquidity can help companies maintain operational smoothness and capitalize on growth opportunities, which ultimately can enhance profitability. Research by Putro and Risman (2021) found that profitability is able to mediate the effect of liquidity on firm value. Good liquidity supports higher profitability, which ultimately increases the company's market value in the eyes of investors. Therefore, it can be concluded that the hypothesis in this study is: H_8: Profitability is capable of mediating the effect of liquidity on firm value.

Profitability is seen as capable of mediating the effect of leverage on company value because well-managed leverage can enhance a company's opportunities to generate higher profits, which subsequently contributes to an increase in company value. Based on Signaling Theory, the appropriate use of leverage demonstrates management's confidence in the company's future prospects, sending a positive signal to investors that the company can manage debt risk while generating stable profitability. According to Brigham and Houston (2020), leverage can be an effective tool for increasing profits, provided that the company can manage debt costs and take advantage of the tax benefits derived from interest payments. Research by Suhendry, Toni, and Simorangkir (2021) found that profitability is able to mediate the relationship between leverage and firm value. Proper leverage can enhance profitability, which ultimately strengthens the firm value in the eyes of investors. Therefore, it can be concluded that the hypothesis in this study is: H_9: Profitability is capable of mediating the effect of leverage on firm value.

Profitability is believed to be capable of mediating the effect of firm size on firm value, where larger company size often indicates the capacity to generate higher profits, which in turn enhances firm value. Based on Signaling Theory, larger companies can provide positive signals to investors regarding stability and growth potential, indicating that they possess competitive advantages and sufficient resources to achieve sustainable profitability. According to Brigham and Houston (2020), larger companies are typically associated with higher operational efficiency and better access to funding sources, which can improve profitability. Subsequent research by Natsir and Yusbardini (2020) and Atiningsih and Izzaty (2021) found that profitability is able to mediate the effect of firm size on firm value. Larger firm size increases profitability, which ultimately enhances the company's value in the eyes of investors. Therefore, it can be concluded that the hypothesis in this study is: H_{10}: Profitability is capable of mediating the effect of firm size on firm value.

Framework

Based on the theoretical basis and the results of previous studies and the problems that have been raised, then as a basis for formulating a hypothesis, the following framework is presented in the research model in the following figure:

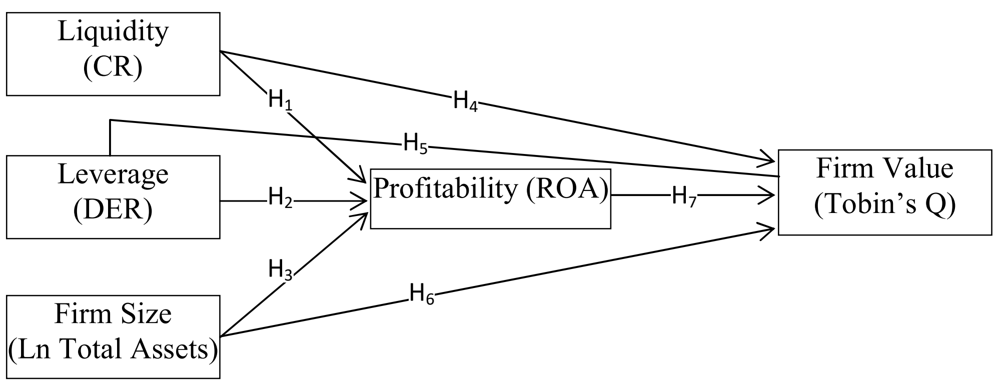

Figure 1. Conseptual Model Method

METHOD

The data used in this study is secondary data obtained the Indonesia Stock Exchange (IDX) website and the websites of the sample companies. The sample used in this research consists of companies listed in the LQ45 Index for the period 2018-2022. The sampling technique employed is purposive sampling, with the following criteria for the companies:

Table 1: Sample Selection Criteria

No	Criteria	Quantity
1	Companies listed in the LQ45 Index for the period of 2018-2022	**71**

2	Companies that are continuously listed in the LQ45 Index for the period of 2018-2022	**(48)**
3	Companies that are part of the banking sector	**(5)**
4	Total sample of companies	**18**
5	Total observation periods	**5**
6	Total research sample: 18 company × 5 periods	**90**

The study employs panel data analysis using EViews 13 software. This technique is appropriate as the data encompasses multiple companies (cross-sections) over several years (time series). Panel data analysis is utilized to control for unobserved variables, providing more efficient and unbiased estimates compared to separate cross-sectional or time series analyses.

Data analysis is performed using panel data in EViews 13, which includes multiple companies (cross-sections) over a defined time period (time series), resulting in more efficient estimates than those from separate cross-sectional or time series analyses. Before conducting regression tests, model selection is carried out using the Chow Test (to choose between the Fixed Effect Model (FEM) or Common Effect Model (CEM)), the Hausman Test (FEM vs. Random Effect Model (REM)), and the Lagrange Multiplier Test (REM vs. CEM).

In this study, firm value serves as the dependent variable, measured by Tobin's Q (the ratio of market value to book value of assets). Profitability is the mediating variable, measured by Return on Assets (ROA), which reflects the ability to generate profit. The independent variables include liquidity, measured by the Current Ratio (CR), indicating the ability to meet short-term obligations; leverage, measured by the Debt to Equity Ratio (DER), which shows the use of debt to finance assets; and firm size, measured by the natural logarithm of total assets.

Operational variables can be summarized in the following table 2 :

Table 2 Definition Operasional Variabel

Variable	**Definition**	**Measurement**	**Scale**
Liquidity (X_1)	Liquidity ratios are ratios that show the relationship between a company's cash and other current assets with its current liabilities. (Brigham and Houston 2020)	$CR = \frac{\text{Cuurent Assets}}{\text{Current Liability}}$ (Adiputra and Hermawan 2020)	Rasio
Leverage (X_2)	The leverage ratio is a ratio used to measure how much of a company's activities are financed with debt, both short-term debt and long-term debt. (Brigham and Houston 2020)	$DER = \frac{\text{Total Utang}}{\text{Total Ekuitas}}$ (Bintara 2020)	Rasio
Firm Size (X_3)	Company size (firm size) is the scale of the company's size which can be classified in various ways, including total revenue, total assets and total equity.	Firm Size = Ln (Total Asset) (Adiputra and Hermawan 2020)	Rasio

	(Brigham and Houston 2020)		
Profitability (Z)	Profitability is the end result of a number of policies and decisions made by a company. (Brigham and Houston 2020)	$ROA = \frac{\text{Earning After Tax}}{\text{Total Asset}}$ (Bintara 2020)	Rasio
Firm Value (Y)	Company value can be interpreted as the market value assessed through share prices and total equity owned by shareholders. (Brigham and Houston 2020)	$TOBIN'S\ Q = \frac{MVE + DEBT}{TA}$ (Adiputra and Hermawan 2020)	Rasio

RESULTS AND DISCUSSIONS

Descriptive Statistics

Based on purposive sampling, there are 18 companies that meet the criteria for this study, covering a total research period of 5 years, resulting in 90 observations. Below are the descriptive statistics for the research sample.

Table 3 Research Results

	CR	DER	SIZE	ROA	TOB_Q
Mean	2.069762	0.995962	31.74953	0.098193	2.370528
Median	1.793200	0.716950	31.73615	0.069050	1.328050
Maximum	5.654800	3.582700	33.65520	0.466600	18.35510
Minimum	0.335600	0.126200	30.42460	-0.057200	0.531200
Std. Dev.	1.222886	0.865086	0.858551	0.091028	3.136242
Observations	90	90	90	90	90

Source : secondary data (2024)

Based on Table 3, the minimum value for liquidity (Current Ratio) is 0.335600, observed in the company EXCL in 2019. The maximum value is 5.654800, recorded by the company INCO in 2022. The mean value is 2.069762, with a standard deviation of 1.222886. The minimum value for leverage (Debt to Equity Ratio) is 0.126200, shown by the company MNCN in 2022, while the maximum value is 3.582700, indicated by the company UNVR in 2022. The mean value for this variable is 0.995962, with a standard deviation of 0.865086.

Next, the minimum value for firm size is 30.42460, observed in the company MNCN in 2018. The maximum value is 33.65520, recorded by the company ASII in 2022. The mean value for this variable is 31.74953, with a standard deviation of 0.858551. The minimum value for profitability (ROA) is –0.057200, shown by the company EXCL in 2018. The maximum value is 0.466600, indicated by the company UNVR in 2018. The mean value for this variable is 0.098193, with a standard deviation of 0.091028. The minimum value for firm value (Tobin's Q) is 0.531200, observed in the company ANTM in 2021, while the maximum value is 18.35510, recorded by the company UNVR in 2018. The mean value for this variable is 2.370528, with a standard deviation of 3.136242.

Normality Test

Structure I : The Influence of Liquidity, Leverage, and Firm Size on Profitability

Table 4: Results of Normality Test for Structure I

Long-run Normality Test Date: 11/05/24 Time: 04:11 Sample: 2018 2022 Included observations: 90		
	Statistic	Prob.
Skewness	0.457209	0.323761
Skewness 3/5	2.651.624	0.004005
Kurtosis	1.378.591	0.084010
Normality	4.733.084	0.093805

Source : secondary data (2024)

Based on Table 4 above, it is noted that the probability value is 0.093805 (>0.05), which allows us to conclude that the data follows a normal distribution.

Structure II : The Influence of Liquidity, Leverage, Firm Size, and Profitability on Firm Value

Table 5: Results of Normality Test for Structure II

Long-run Normality Test		
Date: 11/05/24 Time: 04:11		
Sample: 2018 2022		
Included observations: 90		
	Statistic	Prob.
Skewness	-0.149635	0.559474
Skewness 3/5	1.724.144	0.042341
Kurtosis	1.647.849	0.049692
Normality	3.448.649	0.178293

Source : secondary data (2024)

Based on Table 5 above, it is noted that the probability value is 0.178293 (>0.05), which allows us to conclude that the data follows a normal distribution.

Model Selection Analysis

Structure I : The Influence of Liquidity, Leverage, and Firm Size on Profitability

Based on the Chow Test results, the Cross-section F value is 0.0000 < 0.05, indicating that the chosen model is the Fixed Effect Model. The Hausman Test results show that the Cross-section random value is 0.0005 < 0.05, confirming that the Fixed Effect Model is preferred. The Lagrange Multiplier Test, Breusch-Pagan, also yields a value of 0.0000 < 0.05, leading to the choice of the Random Effect Model. Therefore, it can be concluded that the best model for this study is the Fixed Effect Model.

Structure II : The Influence of Liquidity, Leverage, Firm Size, and Profitability on Firm Value

Similar to Structure I, the Chow Test results indicate a Cross-section F value of 0.0000 < 0.05, leading to the selection of the Fixed Effect Model. The Hausman Test results show a Cross-section random value of 0.0000 < 0.05, confirming the Fixed Effect Model. The Lagrange Multiplier Test also yields a value of 0.0000 < 0.05, supporting the Random Effect Model. Thus, the conclusion remains that the best model for this study is the Fixed Effect Model.

Panel Data Regression Analysis

Structure I : The Influence of Liquidity, Leverage, and Firm Size on Profitability

Table 6 Regression Test Structure I

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.414084	0.696202	-2.031140	0.0461
CR	0.013543	0.010871	1.245752	0.2171
DER	-0.078628	0.018517	-4.246255	0.0001
SIZE	0.049215	0.022228	2.214097	0.0301
	Effects Specification			
Cross-section fixed (dummy variables)				
R-squared	0.868238	Mean dependent var		0.098193
Adjusted R-squared	0.830046	S.D. dependent var		0.091028

Source : secondary data (2024)

Based on Table 6, the regression for Structure I is as follows:

ROA = -1.414084 + 0.013543*CR - 0.078628*DER + 0.049215*SIZE

The regression coefficient value of the liquidity measured by the current ratio is 0.013543 with a probability value of 0.2171 (> 0.05), so the liquidity has no effect on profitability. Based on these results, it can be concluded that H_1 is rejected. The regression coefficient value of leverage measured by the debt to equity ratio is -0.078628 with a probability value of 0.0001 (<0.05), so leverage has a negative effects on profitability. Based on these results, it can be concluded that H_2 is rejected. The regression coefficient value of company size followed by Size is 0.049215 with a probability value of 0.0301 (<0.05), so firm size has a postive effects on profitability. Based on these results, it can be concluded that H_3 is accepted. Furthermore, the Adjusted R-squared value is 0.830046, which allows us to conclude that the influence of liquidity, leverage, and firm size on profitability accounts for 83.00%, while the remaining 17.00% is attributed to other factors.

Structure II : The Influence of Liquidity, Leverage, Firm Size, and Profitability on Firm Value

Table 7 Regression Test Structure II

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	31.74085	16.91184	1.876842	0.0648
CR	0.328991	0.259389	1.268330	0.2090
DER	-1.647843	0.490714	-3.358054	0.0013
SIZE	-0.925157	0.542815	-1.704370	0.0929
ROA	9.809679	2.840672	3.453295	0.0010
	Effects Specification			
Cross-section fixed (dummy variables)				
R-squared	0.939092	Mean dependent var		2.370528
Adjusted R-squared	0.920282	S.D. dependent var		3.136242

Source : secondary data (2024)

Based on Table 7, the regression for Structure II is as follows:

$$TOB\_Q = 31.74085 + 0.328991*CR - 1.647843*DER - 0.925157*SIZE + 9.809679*ROA$$

The regression coefficient value of the liquidity measured by the current ratio is 0.328991 with a probability value of 0.2090 (> 0.05), so the liquidity does not positively effect on firm value. Based on these results, it can be concluded that H_4 is rejected. The regression coefficient value of leverage measured by the debt to equity ratio is -1.647843 with a probability value of 0.0013 (<0.05), so leverage has a negative effect on firm value. Based on these results, it can be concluded that H_5 is rejected. The regression coefficient value of company size followed by Size is -0.925157 with a probability value of 0.0929 (>0.05), so firm size has no negative effect on firm value. Based on these results, it can be concluded that H_6 is rejected. The regression coefficient value of profitability measured by the return on assets is 9.809679 with a probability value of 0.0010 (<0.05), so profitability has a postive effect on firm value. Based on these results, it can be concluded that H_7 is accepted. Furthermore, the Adjusted R-squared value is 0.920282, indicating that the influence of liquidity, leverage, firm size, and profitability on firm value accounts for 92.03%, with the remaining 7.97% influenced by other factors.

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Sobel Test

Table 8 Results of the Sobel Test

	Test Statistic	**Std. Error**	**p-value**
CR→ ROA→ Tob. Q	1,17186757	0,11336817	0,24125023
DER→ ROA→ Tob. Q	-2,67915963	0,28789454	0,00738072
SIZE→ ROA→ Tob. Q	1,86389404	0,25901867	0,06233659

Source : secondary data (2024)

From the results of the Sobel test, a *p*-value of 0.24125023 (>0.05) was obtained with a test statistic of 1.17186757 so that H_8 was rejected. Thus, it can be concluded that profitability is unable to mediate the effect of liquidity on firm value. The Sobel test results show a *p*-value of 0.00738072 (< 0.05) with a test statistic of -2.67915963, leading to the acceptance of H_9. This concludes that profitability can mediate the effect of leverage on firm value. The Sobel test results indicate a *p*-value of 0.06233659 (> 0.05) with a test statistic of 1.86389404, leading to the rejection of H_{10}. Thus, it can be concluded that profitability cannot mediate the effect of firm size on firm value.

The Effect of Liquidity on Profitability

This study found that liquidity as measured by the Current Ratio (CR) does not have a positive effect on profitability in LQ 45 index companies. According to Signaling Theory, high liquidity can provide a positive signal to investors regarding the company's financial stability, but if it is not used productively, its impact on profitability is limited. Brigham and Houston (2020) support this view by stating that high liquidity is often maintained for safety purposes, but if the funds are only stored or allocated for less productive activities, its effect on profitability remains minimal.

This finding suggests that although LQ45 companies generally have good financial performance and high liquidity, their ability to meet short-term obligation does not always have a direct impact on increasing profits. This may be due to the less than optimal efficiency of using current assets, such as inventory and receivables, which may not be allocated productively to support revenue-generating activities. In addition, the profitability of LQ45 companies is more likely to be influenced by other factors such as operational strategy, cost structure, leverage, or dividend policy, which are more dominant in influencing financial results. This finding underlines that while high liquidity is important for maintaining financial stability, companies need to ensure that liquid assets are managed efficiently and directed towards investments or operational activities that can increase profitability. This finding is inconsistent with previous studies by Tahu and Susilo (2017), Tui et al. (2017), Nugraha et al. (2020), Suhendry, Toni, and Simorangkir (2021), Ripaluddin, Pasulu, Taufiq (2023), and Nguyen, Le, and Nguyen (2024) found that liquidity has a positive effect on profitability, but this finding is inconsistent with previous studies by Krismunita and Imronudin (2021) and Handayani, Indarto, and Santoso (2022), which found that liquidity did not significantly affect profitability. Thus, this finding reinforces the idea that liquidity, as measured by CR, only provides limited benefits to profitability if not accompanied by an effective asset utilization strategy.

The Effect of Leverage on Profitability

This study found that leverage, as measured by the Debt to Equity Ratio (DER), has a negative effect on profitability, as measured by Return on Assets (ROA), in companies listed in the LQ45 index on the Indonesia Stock Exchange. Based on Signal Theory, optimal leverage can send a positive signal to investors, indicating that the company is confident in managing debt to maximize profitability. According to Brigham and Houston (2020), well-managed leverage can provide tax benefits by reducing taxable income through interest expenses; however, excessive debt use increases the risk of bankruptcy.

In practice, companies in the LQ45 index often utilize debt to enhance operations and expand their markets, particularly when investment opportunities are abundant but internal resources are limited. These findings indicate that higher reliance on debt financing among these leading companies tends to reduce their ability to generate profits from their assets. A high DER typically leads to increased interest expenses and fixed financial obligations, which ultimately erode the company’s net profit.

Moreover, a high DER reflects greater financial risk, which can limit a company’s operational flexibility in seizing strategic opportunities. The negative impact on profitability may also result from inefficient allocation of debt funds, where investments fail to generate returns higher than the cost of borrowing. For LQ45 companies, which are recognized for their superior financial and operational performance, these results underscore the importance of prudent debt management. While debt can be a tool for driving growth, excessive reliance without careful planning can harm profitability. Therefore, maintaining an optimal balance between debt and equity in the capital structure is crucial to sustaining profitability while managing financial risks effectively.

The findings of this study are inconsistent with previous research by Suhendry, Toni, and Simorangkir (2021), and Ripaluddin, Pasulu, Taufiq (2023) which found that leverage positively affects profitability. However, the results align with studies by Nugraha et al (2020) and Bintara (2020), which found that leverage has a negative effect on profitability.

The Effect of Firm Size on Profitability

This study found that company size, measured using the natural logarithm of total assets (Ln Total Assets), has a positive effect on profitability, as measured by Return on Assets (ROA), in companies listed in the LQ45 index on the Indonesia Stock Exchange. Based on Signal Theory, a larger company sends a positive signal to investors about stability and growth potential, which enhances confidence in the company's ability to generate profits. According to Brigham and Houston (2020), larger companies typically have better access to resources, such as funding, technology, and skilled labor, which supports operational efficiency and profitability.

These findings suggest that large companies in the LQ45 index, which generally have substantial assets, are able to leverage economies of scale and competitive advantages to improve operational efficiency and generate higher profits. As leading companies with strong reputations, LQ45-listed firms usually have easier access to capital markets, allowing them to obtain financing at relatively lower costs. Furthermore, these large companies have greater capabilities in product diversification, market penetration, and risk management, all of which contribute to improved profitability. The large size of these companies also gives them strong bargaining power with suppliers and customers, creating opportunities to enhance profit margins.

However, these findings also emphasize the importance of effective asset management, even for large companies listed in LQ45. Large assets will not provide maximum benefits if they are not utilized efficiently to support value-generating activities. Therefore, companies must continuously improve their asset management strategies to ensure a positive contribution to profitability. These results indicate that company size is one of the key factors that can support profitability, especially in a competitive business environment like the LQ45 index. Large companies that successfully leverage economies of scale and competitive advantages tend to have better financial performance compared to smaller companies.

This finding is consistent with previous research conducted by Hirdinis (2019), Natsir and Yusbardini (2020), and Atiningsih and Izzaty (2021), which found that company size influences profitability, as larger companies can optimize their assets for productive activities and achieve higher profits.

The Effect of Liquidity on Firm Value

This study shows that liquidity, measured using the Current Ratio (CR), does not positively effect on firm value, measured by Tobin's Q, for companies listed on the LQ45 index on the Indonesia Stock Exchange. According to Signal Theory, high liquidity should indicate financial stability, but if current assets are not productively invested in ventures with high returns, their impact on firm value remains limited. Brigham and Houston (2020) also emphasize that excessive liquidity may signal inefficient use of assets, as liquid assets not allocated to productive investments do not directly contribute to increasing firm value.

In practice, many companies in the LQ45 index maintain high liquidity as a reserve against economic uncertainty, but they tend not to use it for long-term value growth. These findings indicate that a company's ability to meet its short-term obligations is not a primary factor influencing the market's perception of firm value among these prominent companies. Excessive liquidity in large companies, such as those listed in LQ45, may reflect inefficient cash management. Investors might view this as an indication that available funds are not being utilized for productive investment opportunities, such as business expansion, product innovation, or diversification strategies. Consequently, the market prioritizes other factors, such as profitability, growth prospects, and operational efficiency, when assessing firm value.

Companies in the LQ45 index generally have easy access to low-cost external financing due to their reputation and credibility. Therefore, liquidity in the form of high current assets may be less relevant compared to long-term investment and growth strategies. Furthermore, the capital market tends to value companies that enhance operational efficiency and allocate resources optimally rather than those that merely maintain high liquidity.

These results also reflect that the Indonesian capital market, particularly in the LQ45 context, is more influenced by strategic indicators such as return on investment, earnings stability, and innovation rather than merely the company's ability to meet short-term obligations. Thus, while liquidity remains essential for maintaining operational stability, LQ45 companies need to focus on strategies that enhance added value and attract investor interest.

These findings align with previous research suggesting that liquidity does not always have a direct impact on firm value, particularly in large and well-established companies. However, it is crucial for companies to maintain a balance of sufficient liquidity, not only to ensure operational stability but also to support the implementation of growth strategies that can increase firm value in the eyes of investors.

The results of this study contradict those of Kahfi, Pratomo, and Aminah (2018), Hapsoro and Falih (2020), Reschiwati, Syahdina, and Handayani (2020), Darmawan et al. (2020), Jihadi (2021), and Ripaluddin, Pasulu, Taufiq (2023), who found that liquidity positively affects firm value. However, the findings are consistent with Olivia and Wiksuana (2021), and Ripaluddin, Pasulu, Taufiq (2023), Adiputra and Hermawan (2020), Putro and Risman (2021), Suhendry, Toni, and Simorangkir (2021), Nurwulandari, Wibowo, and Hasanudin (2021), Yondrichs (2021), Wahid, Ambarwati, and Satmoko (2022), Handayani, Indarto, and Santoso (2022), Budiarti, Moeldjadi, and Wijayanti (2023), Yuliyanti et al. (2023), dan Zulfa, Azam, and Bandono (2024), who found that liquidity does not positively effect on firm value.

The Effect of Leverage on Firm Value

This study found that leverage, as measured by the Debt to Equity Ratio (DER), has a negative effect on firm value as measured by Tobin's Q, in companies listed in the LQ45 index on the Indonesia Stock Exchange. According to Signal Theory, appropriate leverage sends a positive signal to investors that the company can manage debt to improve performance and value. Brigham and Houston (2020) noted that leverage can offer tax benefits through interest deductions; however, excessive debt increases the risk of bankruptcy, which has the potential to reduce the perception of the company's value. In practice, LQ45 index companies often use leverage to strengthen capital and expand the market, thereby increasing their attractiveness to investors.

This negative relationship suggests that leading companies in the LQ45 that have high leverage levels tend to experience a decline in the company's value perceived by the market. In the context of LQ45 companies, which generally have a good reputation and easier access to external financing, high leverage can raise concerns among investors regarding financial risk. Heavy reliance on debt financing can increase interest expenses, thereby reducing net income available to shareholders. This can also exacerbate liquidity risk, especially in uncertain economic conditions.

Furthermore, high DER in LQ45 companies can be seen as an indication of lack of efficiency in capital structure management. Although these companies usually have the capacity to attract investment due to their reputation and credibility, excessive use of debt can reduce their financial flexibility in allocating funds to strategic growth opportunities, such as business expansion, diversification, or product innovation.

From a market perspective, investors tend to focus more on other performance indicators, such as profitability, operational efficiency, and growth stability, compared to high levels of leverage. Excessive leverage can also create the perception that the company is riskier and less oriented towards long-term growth, which ultimately reduces the company's market value as reflected in Tobin's Q.

The results of this study imply that companies in the LQ45 index need to maintain a balance between the use of debt and equity in their capital structure. Focusing on operational efficiency, financial stability, and sustainable growth strategies is more likely to attract investors and increase the company's value in the eyes of the market.

The results of the study are not in line with the results of studies conducted by Lestari (2023), Jihadi et al. (2021), Wahid, Ambarwati, and Satmoko (2022), Yuliyanti et al. (2023), and Zulfa, Azam, and Bandono (2024), which found that leverage has a positive effect on firm value. However, the results of this study are in line with the results of studies conducted by Fosu et al. (2016), Kahfi, Pratomo, and Aminah (2018), Simorangkir (2019), and Ripaluddin, Pasulu, Taufiq (2023), which found that leverage has a negative effect on firm value.

The Effect of Firm Size on Firm Value

The research findings indicate that firm size, measured by Ln Total Assets, does not have a negative effect on firm value, measured by Tobin's Q. This means that the total assets owned by a company do not significantly impact the perceived market value of the firm in a way that decreases it. In the context of signaling theory, large companies with greater resources and stability do not necessarily send positive signals to investors, especially if they face managerial challenges or operational inefficiencies. According to Brigham and Houston (2020), in a competitive business environment, firm size alone is not a determining factor of value.

Firm size is often seen as an indicator of operational strength and financial stability. Companies with substantial assets generally possess a higher capacity to operate on a larger scale, diversify revenue streams, and mitigate external risks.

However, in this case, the findings suggest that merely owning significant assets is insufficient to produce either a negative or positive impact on firm value.

The market tends to evaluate more than just the size of assets, focusing instead on how effectively a company manages and utilizes those assets to generate revenue, profit, and returns on investment. If a company fails to optimize asset utilization, having a larger size does not necessarily provide a competitive advantage. Conversely, the market is likely to prioritize operational efficiency, asset productivity, and the long-term investment strategies implemented by the company.

In the context of large companies such as those listed in the LQ45 index, firm size may not be the primary factor influencing value. These companies typically have other advantages, such as easy access to financing, strong reputations, and opportunities to achieve economies of scale. Therefore, the market is more inclined to assess performance based on other indicators, such as profitability, innovation, revenue growth, or business diversification, rather than merely the size of the company's assets.

These findings differ from those of previous studies by Hapsoro and Falih (2020), Natsir and Yusbardini (2020), Nurwulandari, Wibowo, and Hasanudin (2021), Atiningsih and Izzaty (2021), Lestari (2023), and Zulfa, Azam, and Bandono (2024), which found that firm size has a positive effect on firm value. Similarly, they contrast with studies by Susanti and Restiana (2018), Hirdinis (2019), Reschiwati, Syahdina, and Handayani (2020), and Wahid, Ambarwati, and Satmoko (2022), which found that firm size negatively affects firm value. However, these results align with findings by Adiputra and Hermawan (2020), and Yulandri, Hertina, and Asih (2023), which found that firm size does not have a negative impact on firm value.

The Effect of Profitability on Firm Value

The research findings indicate that profitability, measured using Return on Assets (ROA), has a positive effect on firm value, as measured by Tobin's Q. This implies that the higher a company's ability to generate profits from its total assets, the higher the firm's value perceived by the market.

High profitability reflects a company's efficiency in utilizing its assets to generate income. In financial theory, strong profitability sends a positive signal to investors about the company's financial health and its capacity to deliver sustainable returns. This aligns with Signaling Theory, which posits that good financial performance builds investor confidence and enhances the company's attractiveness in capital markets. As noted by Brigham and Houston (2020), in a competitive business environment, investors tend to focus on financial performance as an indicator of growth potential, where strong profitability fosters trust in the company's capacity for expansion.

A high ROA also demonstrates effective asset management and significant net profit generation. Consequently, companies with high ROA are considered more appealing as they signify operational efficiency and the potential to provide substantial returns to shareholders.

In the context of companies listed in the LQ45 index, the positive effect of profitability on firm value becomes even more relevant. These firms typically have better access to resources and larger business opportunities, making the profits they generate more impactful on their market value. A high Tobin's Q value in such companies reflects market appreciation for their efficiency and profitability performance.

These findings are consistent with previous studies conducted by Sucuahi and Cambarihan (2016), Tui et al. (2017), Rosikah et al. (2018), Zuhroh (2019), Dwiastuti and Dillak (2019), Sari and Sedana (2020), Darmawan et al. (2020), Sughosa and Artini (2020), Natsir and Yusbardini (2020), Jihadi et al. (2021), Yondrichs et al. (2021), Olivia and Wiksuana (2021), Suhendry, Toni, and Simorangkir (2021), Atiningsih and Izzaty (2021), Handayani, Indarto, and Santoso (2022), Faradila and Effendi (2023), Buti and Wiyarni (2023), Lestari (2023), and Budiarti, Moeldjadi, and Wijayanti (2023), which also found that profitability positively influences firm value.

Profitability as a Mediator of the Effect of Liquidity on Firm Value

This study reveals that profitability, measured using Return on Assets (ROA), is unable to mediate the effect of liquidity, measured by the Current Ratio (CR), on firm value, measured by Tobin's Q. This indicates that while liquidity is an important factor, profitability does not always function as a linking element that strengthens the relationship. In the context of signaling theory, good liquidity can provide a positive signal about a company's financial health. However, if profitability is low, investors may remain skeptical about the company's long-term growth prospects, thereby hindering an increase in firm value. Brigham and Houston (2020) state that companies with high liquidity but low profitability are often perceived as high-risk, reducing their attractiveness to investors.

These findings suggest that although liquidity reflects a company's ability to meet its short-term obligations, it does not significantly influence firm value through the profitability pathway. In this context, profitability does not serve as a mediator that strengthens the relationship between liquidity and firm value.

From a liquidity perspective, the CR is often used to assess a company's ability to maintain short-term financial stability. However, a high liquidity ratio does not necessarily indicate efficient utilization of assets or working capital to generate profits. If a company merely maintains liquidity without utilizing excess current assets to support operational or investment activities, its impact on profitability—and consequently on firm value—becomes limited.

Profitability, represented by ROA, typically reflects a company's efficiency in managing assets to generate profits. In many studies, profitability is expected to serve as a mediator in the relationship between other financial variables and firm value. However, this study reveals that ROA cannot strengthen the relationship between CR and Tobin's Q. This may be because high liquidity does not always generate sufficient profits to influence market perceptions of firm value. In other words, the market may not focus solely on liquidity and profitability but also consider other variables, such as growth, innovation, or investment strategies.

This study, conducted on companies listed in the LQ45 index, further validates these findings. Companies within the LQ45 index typically have greater access to resources and business opportunities, making their liquidity more stable. However, in a competitive environment, the market tends to evaluate companies based on other indicators such as operational efficiency, innovation, or long-term growth strategies, rather than solely focusing on the relationship between liquidity and profitability.

These findings align with studies by Handayani, Indarto, and Santoso (2022) and Ripaluddin, Pasulu, Taufiq (2023), which also found that profitability does not mediate the effect of liquidity on firm value. Liquidity can directly impact firm value without requiring profitability as a mediator, highlighting that companies may have strong cash flows but are inefficient in generating profits. These results underscore the complexity of the relationship between liquidity, profitability, and firm value, where other factors may play a more dominant role in shaping investor perceptions.

Profitability as a Mediator of the Effect of Leverage on Firm Value

The research findings indicate that profitability, as measured by Return on Assets (ROA), plays a crucial role as a mediator in the relationship between leverage, measured by the Debt to Equity Ratio (DER), and firm value, measured by Tobin's Q. In other words, the influence of leverage on firm value is not solely direct but also involves profitability as a connecting pathway.

High leverage, as reflected by a high DER, indicates that a company significantly utilizes debt in its capital structure. This can provide strategic advantages if the debt is allocated to productive investments, leading to higher profits. However, high leverage also entails substantial financial risks, such as the potential for default, which may diminish investor confidence. In this context, profitability serves as a key indicator of the company's efficiency in utilizing its assets to generate profits while managing the risks associated with debt usage.

When a company is able to optimally use debt to boost productivity and generate substantial net income, it reflects sound financial management. High ROA signals to the market that the company effectively manages its assets, even under significant debt obligations. This, in turn, enhances investor confidence in the company's ability to sustain growth, thereby increasing firm value, as evidenced by an improvement in Tobin's Q.

Under the framework of signaling theory, companies with strong profitability send positive signals to investors, demonstrating their ability to not only manage leverage-related risks but also deliver significant returns. High profitability creates a perception that the company has solid fundamentals, strong competitiveness, and promising long-term growth prospects, thereby boosting its value in the eyes of the market. Brigham and Houston (2020) emphasize that as long as companies can generate sufficient profits to cover debt costs, leverage can enhance shareholder returns.

This study underscores the importance of proper leverage management, with profitability serving as a critical success factor. Leverage utilized without sufficient profitability may only amplify risks. However, when accompanied by improved operational efficiency, as reflected by a higher ROA, its impact on firm value becomes more significant. Thus, companies that successfully manage this relationship are more likely to attract investor interest and enhance their competitiveness in the market.

These findings align with the research by Suhendry, Toni, and Simorangkir (2021), which also found that profitability mediates the relationship between leverage and firm value. Profitability plays a vital role in bridging the gap between leverage and firm value, as companies that efficiently manage debt and generate profits tend to have higher perceived value among investors. This demonstrates that profitability not only reflects a company's financial health but also enhances investors' perceptions of the risks and potential returns associated with the use of debt.

Profitability as a Mediator of the Effect of Firm Size on Firm Value

The study conducted on companies listed in the LQ45 index reveals that profitability, measured using Return on Assets (ROA), fails to mediate the influence of firm size, measured by Ln Total Assets, on firm value, measured by Tobin's Q. This finding indicates that, although companies in the LQ45 index generally possess substantial assets, the profitability generated from these assets is not sufficiently significant to strengthen the relationship between firm size and firm value.

Companies within the LQ45 index are known for their large market capitalization and extensive access to capital markets. However, the results show that possessing large assets alone is insufficient to enhance firm value through profitability. One possible explanation is that these sizable assets are not yet optimally managed to generate profits. High operational costs, long-term investments that have not yielded results, or reliance on specific markets could hinder the efficiency of asset utilization.

Moreover, investors focusing on LQ45 companies tend to consider various factors beyond firm size and profitability. Indicators such as innovation, sustainability, long-term growth strategies, and global competitiveness are often prioritized. Thus, having substantial assets without accompanying operational efficiency and effective profit management might not significantly impact investors' perception of firm value.

Under signaling theory, large firms often signal stability and business continuity to investors; however, firm size alone does not guarantee high profitability. High profitability can deliver positive signals about a company's financial efficiency and sustainability. Brigham and Houston (2020) explain that in practice, large companies with extensive assets may not always efficiently manage their resources, leading to lower profitability. In this case, if ROA is not sufficiently high, investors remain skeptical about the company's ability to optimally utilize its assets. This highlights the need for LQ45 companies to focus not only on asset accumulation but also on efficient management to generate significant profits.

The findings of this study carry important implications for companies in the LQ45 index. These companies need to improve the efficiency of managing their large assets to boost net profits. Additionally, it is crucial for them to develop long-term strategies involving innovation, business diversification, and better cost management. Through such efforts, these companies can send positive signals to investors about their financial fundamentals while simultaneously enhancing firm value.

This research aligns with the findings of Hirdinis (2019), which showed that profitability does not mediate the relationship between firm size and firm value. This underscores the complexity of the relationship between firm size, profitability, and firm value, where profitability may not always act as a determining factor in the context of firm size. Despite the advantages of large assets and stable liquidity that LQ45 companies hold, their success in increasing firm value depends on their ability to manage those assets efficiently. By focusing on profitability and other relevant factors, companies in the LQ45 index can enhance their competitiveness and attractiveness to investors.

CONCLUSIONS

This study makes a significant contribution to the development of theory and practice in the capital market, particularly in the context of the relationships between liquidity, leverage, firm size, profitability, and firm value. The findings indicate that liquidity does not positively affect profitability, leverage has a negative effect, while firm size has a positive effect on profitability. Furthermore, liquidity does not positively affect firm value, leverage negatively affects firm value, firm size does not negatively affect firm value, while profitability positively influences firm value. Additionally, profitability does not mediate the effects of liquidity and firm size on firm value but can mediate the effect of leverage on firm value.

This research provides valuable insights into the relationships among these variables in the Indonesian capital market, particularly for companies in the LQ45 index. Theoretically, it demonstrates that profitability mediates the effect of leverage on firm value but does not mediate the effects of liquidity and firm size, emphasizing the importance of operational efficiency in supporting these relationships. Within the framework of Signaling Theory, the study highlights that signals from liquidity and firm size are only effective if supported by significant profitability. Practically, the findings underscore the importance of prudent leverage management, asset optimization, and long-term growth strategies such as innovation and diversification to enhance a firm's competitiveness. Investors are advised to be cautious when evaluating companies with high leverage but low profitability, while policymakers are encouraged to enhance financial transparency and promote efficient asset management to build market trust. The study emphasizes that large assets or high liquidity alone are insufficient to enhance firm value without optimal management and well-directed business strategies.

The study utilized data from companies in the LQ45 index during the 2018–2022 period. This limitation may restrict the generalizability of the findings to all companies listed on the Indonesia Stock Exchange (IDX) or those in other sectors. While the study considers important variables such as liquidity, leverage, firm size, and profitability, other variables, such as innovation, risk management, or corporate governance quality, may also influence firm value but were not included in the research model.

The study employed panel data analysis using the Fixed Effects Model, which is suitable for panel data but may not fully capture all internal company dynamics, particularly those related to external factors such as macroeconomic conditions or regulatory changes. To expand the utility of these findings, future research is recommended to include companies outside the LQ45 index, incorporate additional variables such as innovation or corporate governance, and utilize more complex methodologies such as structural equation modeling (SEM).

These approaches can provide deeper insights into the financial dynamics of the Indonesian capital market.

Companies are advised to prioritize efficiency in leverage management to ensure debt is productively utilized in profit-generating activities, as high leverage without a solid strategy can diminish firm value. Additionally, firms with large assets should optimize asset management to support growth and innovation and develop diversification strategies and product innovation to maintain competitiveness in the capital market. Good financial transparency and corporate governance are also essential for building investor confidence, particularly among institutional investors who are more sensitive to risk. For investors, it is important to prioritize profitability as a key indicator when evaluating companies with high leverage, as it reflects the firm's ability to manage financial risks and generate returns. Investors should also consider asset management efficiency and non-financial factors such as innovation, governance, and sustainability to assess a company's growth potential. To mitigate risks, diversifying portfolios across various sectors and firm sizes is also recommended to enable more informed investment decisions.

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by Ady Inrawan

THE ROLE OF PROFITABILITY IN MEDIATING DETERMINANTS OF FIRM VALUE

ABSTRACT

This study aims to analyze the role of profitability in mediating the relationship between liquidity, leverage, and firm size in relation to firm value. The data used in this study are secondary data obtained from the Indonesia Stock Exchange websites. The population consists of 71 companies listed in the LQ45 index for the period 2018-2022. The study sample includes 18 non-bank companies within the LQ45 index, selected through purposive sampling, yielding a total of 90 observations over five years. Data analysis was conducted using panel data with EViews 13 software. model selection was carried out through the Chow Test, Hausman Test, and Lagrange Multiplier Test. The results indicate that liquidity has no effect on profitability, whereas leverage and firm size significantly impact profitability. Furthermore, leverage influences firm value, while liquidity and firm size show no significant effect on firm value. Profitability does not mediate the effect of liquidity and firm size on firm value but does mediate the effect of leverage on firm value. Theoretically, this research complements previous theories and serves as a reference for future studies. Practically, investors can utilize this information to exercise caution when assessing companies with high leverage levels but low profitability.

Keywords: Profitability, Liquidity, Leverage, Firm Size, Firm Value.

INTRODUCTION

Firm value is one of the primary indicators used by investors to assess a company's performance and future prospects. High firm value reflects investor confidence in the company's ability to generate profits and sustain itself over the long term. According to Anggeriani, Fachrudin, and Silalahi (2018), maximizing firm value is crucial for a company, as it also maximizes shareholder wealth, which is the primary objective of a business. Firm value has become a primary focus in the business and academic worlds as it reflects investors' perceptions of a company's prospects and performance. However, in practice, firm value is not always stable and can be influenced by various internal and external factors. For instance, during periods of global economic uncertainty, such as a pandemic or financial crisis, firm value tends to fluctuate due to changes in investors' perceptions of risks and opportunities. Additionally, firm value is often affected by market dynamics, government policies, and interest rate fluctuations. On the other hand, companies with strong financial performance, as indicated by high profitability or an optimal capital structure, do not always sustain their firm value if not complemented by innovation, reputation, and effective risk management. This phenomenon illustrates the complexity of the relationship between a company's internal performance, external conditions, and market behavior in determining firm value.. Numerous studies have examined factors affecting firm value, yet their findings have been inconsistent. Factors such as liquidity, leverage, firm size, and profitability play a significant role in influencing firm

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value, as each reflects key aspects of a company's financial health and prospects. Liquidity, which represents a company's ability to meet short-term obligations, signals financial stability that can enhance investor confidence, although excessively high liquidity may indicate inefficient asset utilization. Leverage, as a measure of debt usage in the capital structure, can provide benefits through tax savings (tax shields), but excessive leverage increases bankruptcy risk, which can harm firm value. Firm size is often associated with operational stability and easier access to financing, which can boost investor appeal, although overly large firms may face inefficiencies. Meanwhile, profitability serves as a primary indicator of a company's success in generating profits, reflecting better potential investment returns. These four factors are interconnected and are central to investors' evaluations of a company's growth prospects and risks, making changes in any of these factors significantly impactful on firm value.

High liquidity signals to investors that the company has sound financial health and a low risk of bankruptcy. However, excessive liquidity may also indicate that a company is not optimally utilizing its financial resources. Several studies, including Kahfi, Pratomo, and Aminah (2018), Hapsoro and Falih (2020), Reschiwati, Syahdina, and Handayani (2020), Darmawan et al. (2020), Jihadi et al. (2021), and Ripaluddin, Pasulu, and Taufiq (2023) liquidity has a positive effect on firm value. In contrast, studies by Tui et al. (2017), Adiputra and Hermawan (2020), Sari and Sedana (2020), Putro and Risman (2021), Suhendry, Toni, and Simorangkir (2021), Nurwulandari, Wibowo, and Hasanuddin (2021), Yondrichs et al. (2021), Wahid, Ambarwati, and Satmoko (2022), Handayani, Indarto, and Santoso (2022), Budiarti, Moeldjadi, and Wijayanti (2023), Yuliyanti et al. (2023), and Zulfa, Azam, and Bandono (2024) indicate that liquidity (CR) does not affect firm value.

The second factor affecting firm value is leverage. The leverage ratio is used to measure the extent to which a company's activities are financed by debt, including both short-term and long-term debt. A higher leverage ratio indicates a greater level of dependence on external parties (creditors) and a larger amount of interest expenses that the company must pay. Leverage reflects how much debt a company uses in its capital structure. When used appropriately, debt can provide tax benefits and increase earnings per share. However, excessive debt can lead to a higher risk of bankruptcy, which may diminish firm value. Several studies have been conducted, including those by Fosu et al. (2016), Kahfi, Pratomo, and Aminah (2018), Lestari (2023), Simorangkir (2019), Jihadi et al. (2021), Wahid, Ambarwati, and Satmoko (2022), Ripaluddin, Pasulu, and Taufiq (2023), Yuliyanti et al. (2023), and Zulfa, Azam, and Bandono (2024), which found that leverage significantly affects firm value. In contrast, research by Dwiastuti and Dillak (2019), Suhendry, Toni, and Simorangkir (2021), Almomani et al. (2022), Handayani, Indarto, and Santoso (2022), Yulandri, Hertina, and Asih (2023), and Habakkuk, Nduanti, and Wang'ombe (2023) found that leverage does not affect firm value.

Firm size is also a significant factor in determining firm value. Larger companies typically have better access to resources and capital markets, which can help them maintain stable performance and enhance firm value. However, company size can also lead to inefficiencies that ultimately negatively impact firm value. Several studies have been conducted, including those by Susanti and

Restiana (2018), Anggeriani, Fachrudin, and Silalahi (2018), Hirdinis (2019), Sughosa and Artini (2020), Nugraha et al. (2020), Reschiwati, Syahdina, and Handayani (2020), Hapsoro and Falih (2020), Natsir and Yusbardini (2020), Nurwulandari, Wibowo, and Hasanudin (2021), Atiningsih and Izzaty (2021), Wahid, Ambarwati, and Satmoko (2022), Lestari (2023), and Zulfa, Azam, and Bandono (2024), which found that firm size has a effects on firm value. In contrast, research by Tui et al. (2017), Dwiastuti and Dillak (2019), Adiputra and Hermawan (2020), Nurwulandari, Wibowo, and Hasanudin (2021), Handayani, Indarto, and Santoso (2022), Yulandri, Hertina, and Asih (2023), and Hechmi and Saanoun (2024) found that firm size (SIZE) does not affect firm value.

High profitability can enhance investor confidence, which in turn can increase firm value. Profitability is the end result of a series of policies and decisions made by the company (Brigham and Houston 2020). Several previous studies have been conducted, including those by Sucuahi and Cambarihan (2016), Tui et al. (2017), Rosikah et al. (2018), Zuhroh (2019), Dwiastuti and Dillak (2019), Sari and Sedana (2020), Darmawan et al. (2020), Sughosa and Artini (2020), Syamsudin et al. (2020), Natsir and Yusbardini (2020), Jihadi et al. (2021), Yondrichs et al. (2021), Olivia and Wiksuana (2021), Suhendry, Toni, and Simorangkir (2021), Atingsih and Izzaty (2021), Handayani, Indarto, and Santoso (2022), Faradila and Effendi (2023), Buti and Wiyarni (2023), Lestari (2023), Budiarti, Moeldjadi, and Wijayanti (2023), Zulfa, Azam, and Bandono (2024), and Yulianti et al (2024), which found that profitability affects firm value. In contrast, research conducted by Asyuyi, Wahyudi, and Mawardi (2018), Reschiwati, Syahdina, and Handayani (2020), Hapsoro and Falih (2020), Nurwulandari, Wibowo, and Hasanudin (2021), Ripaluddin, Pasulu, and Taufiq (2023), and Yulianti et al. (2023) found that profitability does not affect firm value.

Furthermore, profitability, which reflects a company's ability to generate profits, is considered a key factor that mediates the relationship between liquidity, leverage, and firm size on firm value. The liquidity of a company has an impact on its value, both directly and through profitability as a mediator. Adequate liquidity enables a company to meet its short-term obligations, providing confidence to investors about the company's financial stability, which can enhance firm value. However, high liquidity also needs to be balanced with effective management to avoid hindering asset productivity. With maintained liquidity, the company can operate efficiently, supporting an increase in profitability. High profitability indicates optimal company performance, thus enhancing its attractiveness to investors and ultimately increasing firm value. Several previous studies have been conducted, including those by Tahu and Susilo (2017), Tui et al. (2017), Nugraha et al. (2020), Bintara (2020), Suhendry, Toni, and Simorangkir (2021), Rpaluddin, Pasulu, and Taufiq (2023) and Nguyen, Le, and Nguyen (2024), which found that liquidity affects profitability. In contrast, research conducted by Krismunita and Imronudin (2021) and Handayani, Indarto, and Santoso (2022) found that liquidity does not affect profitability. Further research by Putro and Risman (2021) found that profitability can mediate the effect of liquidity on firm value. However, the studies by Handayani, Indarto, and Santoso (2022) and Ripaluddin, Pasulu, and Taufiq (2023) found that profitability is not capable of mediating the effect of liquidity on firm value.

Furthermore, a company's leverage has an important relationship with firm value, particularly when influenced by the mediating role of profitability. Optimal use of leverage allows a company to finance investments without sacrificing equity, thereby increasing potential profits and growth. However, high leverage also increases financial risk and interest costs, which can reduce net income. In this context, profitability mediates the relationship by demonstrating the company's effectiveness in managing debt to generate profits. If a company can efficiently use leverage to enhance profitability, it will attract investor interest and increase firm value. Conversely, if leverage fails to improve profitability, the financial risks borne by the company may negatively impact its value. Several previous studies have been conducted, including those by Nugraha et al. (2020), Bintara (2020), Suhendry, Toni, and Simorangkir (2021), and Ripaluddin, Pasulu, and Taufiq (2023), which found that leverage affects profitability. In contrast, research by Hamidah (2016), Makhdalena (2018), Rahamdhanti, Amaliawiati, and Nugraha (2021), and Handayani, Indarto, and Santoso (2022) found that leverage does not affect profitability. Additionally, the study by Suhendry, Toni, and Simorangkir (2021) found that profitability can mediate the relationship between leverage and firm value, while the research by Ripaluddin, Pasulu, and Taufiq (2023) found that profitability does not mediate the relationship between leverage and firm value.

The relationship between firm size and firm value through profitability is supported by research findings from Hirdinis (2019), Natsir and Yusbardini (2020), and Atiningsih and Izzaty (2021), which indicate that firm size affects profitability. In contrast, Tui et al. (2017) found that firm size does not influence profitability. Subsequent studies by Natsir and Yusbardini (2020) and Atiningsih and Izzaty (2021) found that profitability can mediate the effect of firm size on firm value. Meanwhile, Hirdinis (2019) found that profitability does not mediate the relationship between firm size and firm value.

This study examines the impact of liquidity, leverage, and firm size on firm value with profitability, measured through Return on Assets (ROA), as a mediating variable, and has yielded varied findings. Some studies found that ROA can mediate the effect of liquidity on firm value, as reported by (Putro and Risman 2021). However, other studies showed different results, such as the research conducted by Handayani, Indarto, and Santoso (2022), which concluded that profitability does not mediate the effect of liquidity on firm value. Similarly, in the context of leverage, research by Suhendry, Toni, and Simorangkir (2021) indicates that ROA can mediate the effect of leverage on firm value, while the study by Ripaluddin, Pasulu, Taufiq (2023) states otherwise. The inconsistency of these results creates a gap that highlights the need for further studies to clarify the role of ROA as an effective mediator in this model.

The novelty of this research lies in the comprehensive approach used to analyze the role of ROA as a mediating variable in the effects of liquidity, leverage, and firm size on firm value. While most previous studies have tended to examine these variables separately or have focused only on their direct effects on firm value, this study offers an integrated approach by evaluating all three variables simultaneously. This provides a new perspective that enriches the academic literature and generates deeper insights into the mediating role of ROA in enhancing firm value.

This research is highly urgent as it aims to address the inconsistencies in the results of previous studies. Considering that firm value is a primary reference for investors in making investment decisions, understanding the role of profitability as a mediating variable will provide practical guidance for companies in enhancing investor confidence and attractiveness. Thus, this study is relevant for financial managers in their efforts to maximize firm value through better management of liquidity, leverage, and firm size.

In terms of originality, this research offers a novel contribution by integrating these three variables into a single model and examining the effectiveness of profitability as a mediating factor. This study also utilizes more recent data and analysis methodologies tailored to the current economic conditions, making the results more relevant for practical guidance and corporate strategies.

The objective of this research is to examine and analyze whether ROA can mediate the effects of liquidity, leverage, and firm size on firm value, both directly and indirectly. Additionally, this study aims to comprehensively explain the extent to which these three variables influence firm value. The findings of this research are expected to contribute academically by enriching the literature on the role of profitability as a mediating variable. Practically, the results are anticipated to provide guidance for financial managers in making decisions related to liquidity management, leverage, and firm size, which ultimately can enhance profitability and firm value.

LITERATURE REVIEW

Signaling Theory

Signaling theory was proposed by Michael Spence in 1973, suggesting that asymmetric information between company managers and investors can be addressed through signals provided by management. In this context, companies use financial reports or strategic actions as signals to investors regarding the company's condition and prospects. Brigham and Houston (2020) explain that the information conveyed by management through financial statements, dividend policies, or investment decisions can serve as signals about the company's status and future potential to external parties. These signals help reduce the information asymmetry between managers and investors, assisting investors in making better investment decisions. Actions that are perceived as positive signals, such as increased profits or the announcement of new projects, can enhance investor confidence and have a positive impact on firm value.

Firm Value

Firm value represents the market's perception of the overall performance and future prospects of the company. According to Brigham and Houston (2020), firm value can be defined as the market value assessed through stock price and the total equity held by shareholders. Firm value is crucial because the primary objective of financial management is to maximize it for the benefit of shareholders. A common measure used to assess firm value is Tobin's Q, which is the ratio of the company's market value of assets (market capitalization) to the replacement cost of the company's assets.

Profitability

Profitability is a measure of a company's performance in generating profit relative to its sales, assets, or equity. According to Brigham and Houston (2020), profitability is a key indicator used to assess how efficiently a company's management utilizes its resources to generate earnings. High profitability indicates that the company has successfully managed its assets efficiently to generate profits, which is a sign of good financial performance. Profitability is also often used as a mediating variable that strengthens the relationship between other financial factors and company value, as good performance typically enhances investor confidence.

Liquidity

Liquidity refers to a company's ability to meet its short-term obligations as they come due without facing financial difficulties. According to Brigham and Houston (2020), liquidity is crucial for a company as it reflects the ability to convert current assets into cash to fulfill short-term liabilities. High liquidity can reduce the risk of bankruptcy because the company can meet its short-term obligations. However, excessive liquidity may also indicate inefficient cash management, as an excess of current assets can decrease profitability levels.

Leverage

Leverage refers to the use of debt financing to enhance the potential return to a company's shareholders. According to Brigham and Houston (2020), leverage reflects the extent to which a company utilizes debt in its capital structure, which can increase both risk and potential returns for shareholders. Leverage can provide benefits in the form of increased profits if the investments financed with debt yield returns greater than the cost of the debt itself. However, leverage also carries risks, particularly financial risk, because the higher the debt, the greater the obligation for interest and principal repayments that the company must fulfill. If a company fails to meet these obligations, it could lead to bankruptcy. Companies with high leverage have more debt compared to equity, which can provide tax benefits but also heightens financial risk. High leverage can increase the value of a company due to tax advantages, but if it becomes excessive, it may raise the risk of bankruptcy.

Firm Size

Firm size is an important factor in financial analysis and management strategy. According to Brigham and Houston (2020), firm size, measured by total assets or sales, reflects the capacity and stability of a company in its operations and can influence market perceptions. Firm size is often associated with the total assets owned, which reflects the magnitude of resources available to support business operations and expansion. Generally, the larger the company size, the greater its capacity to obtain financing from capital markets, whether through equity or debt.

Hypothesis Development

In signaling theory, high liquidity can serve as a positive signal for investors, indicating that the company has a good ability to meet its short-term obligations and manage cash efficiently, which in turn can enhance investor confidence and create opportunities for increased profitability. Brigham and Houston (2020) explain that adequate liquidity allows a company to take advantage of profitable investment opportunities and avoid costs associated with late payments or reliance on short-term funding sources. Several previous studies conducted by Tahu and Susilo (2017), Tui et al. (2017), Nugraha et al. (2020), Suhendry, Toni, and Simorangkir (2021), Ripaluddin, Pasulu, and Taufiq (2023), and Nguyen, Le, and Nguyen (2024) found that liquidity has a positive effects on profitability. Companies with adequate cash reserves tend to be more stable and flexible in investing in productive assets, which ultimately enhances their financial performance. This indicates that good liquidity management not only maintains financial stability but can also act as a catalyst in improving the company's profitability. Therefore, it can be concluded that the hypothesis in this study is: H1: Liquidity has a positive effects on profitability.

Leverage refers to the use of debt by a company in its capital structure, which can signal management's confidence in the company's ability to generate sufficient profits to meet its debt obligations. Based on Signaling Theory, an optimal level of leverage is considered a positive signal for investors, indicating that the company is willing to take on debt because it expects its future performance to cover the associated costs. According to Brigham and Houston (2020), leverage can enhance the value of a company since debt is often a cheaper source of funding compared to equity, and the interest on debt can provide tax benefits. Research by Suhendry, Toni, and Simorangkir (2021), and Ripaluddin, Pasulu, and Taufiq (2023) found that leverage has a positive affects profitability, while Nugraha et al. (2020) and B[illegible]tara (2020) found that leverage has a negative effect on profitability. Therefore, it can be concluded that the hypothesis in this study is: H_2: Leverage has a positive effects on profitability.

Firm size is often measured by total assets or revenue, reflecting its capacity and operational scale. Larger companies generally have more resources, better access to markets, and the ability to take advantage of economies of scale. These advantages allow for a reduction in unit costs and an increase in operational efficiency, which in turn contributes to enhanced profitability. Furthermore, large companies typically have stronger bargaining power with suppliers and customers, which can result in higher profit margins and a reinforced market position. Additionally, company size is often seen as an indicator of financial strength and stability. From the perspective of Signaling Theory, a large size serves as a positive signal to investors and stakeholders, as it reflects quality and promising profitability potential. According to Brigham and Houston (2020), larger companies usually have better access to various resources, such as funding, technology, and skilled labor, all of which support operational efficiency and facilitate higher profitability. Research by Hirdinis (2019), Natsir and Yusbardini (2020), and Atiningsih and Izzaty (2021) found that company size has a positive effects on profitability. Thus, the hypothesis in this study is: H_3: Firm size has a positive effect on profitability.

Liquidity refers to a company's ability to meet its short-term obligations and is often viewed as a positive signal regarding the company's financial stability in the eyes of investors. According to Signaling Theory, companies with good liquidity levels send signals indicating that they have a solid financial capacity to handle their obligations, which can enhance market perception of the company's value. According to Brigham and Houston (2020), adequate liquidity enables companies to maintain operational flexibility and avoid the risk of financial distress, ultimately increasing the company's attractiveness to investors. Research by Kahfi, Pratomo, and Aminah (2018), Hapsoro and Falih (2020), Darmawan et al. (2020), and Jihadi et al. (2021), found that liquidity has a positive effects on firm value, while Reschiwati, Syahdina, and Handayani (2020), Olivia and Wiksuana (2021), and Ripaluddin, Pasulu, Taufiq (2023) found that liquidity has a negative effects on firm value. Companies with high liquidity are perceived as more stable and attractive to investors, thereby increasing their market value. Thus, the hypothesis in this study is: H_4: Liquidity has a positive effect on firm value.

Leverage refers to a company's use of debt within its capital structure, which can signal management's confidence in the company's ability to generate sufficient profits to meet its debt obligations. According to Signaling Theory, an optimal level of leverage is considered a positive signal for investors, indicating that the company is willing to take on debt because it expects its future performance to cover the cost of that debt. According to Brigham and Houston (2020), leverage can enhance company value because debt is often a cheaper source of financing compared to equity, and the interest on debt can also provide tax benefits. Several studies, including those by Lestari (2023), Jihadi et al. (2021), Wahid, Ambarwati, and Satmoko (2022), Yuliyanti et al. (2023), and Zulfa, Azam, and Bandono (2024), have found that leverage has a positive effects on firm value, while Fosu et al. (2016), Kahfi, Pratomo, and Aminah (2018), Simorangkir (2019), and Ripaluddin, Pasulu, Taufiq (2023), have found that leverage has a negative effects on firm value. Optimal leverage has the potential to increase 3 firm value through financing efficiency and the tax benefits obtained. Therefore, it can be concluded that the hypothesis in this study is: H_5: Leverage has a positive effects on firm value.

Firm size is often associated with company value, where larger companies are viewed as more stable and capable of facing higher business risks compared to smaller companies. Based on Signaling Theory, company size can serve as a positive signal to investors, indicating that the company has financial resilience and adequate resources to support long-term growth. According to Brigham and Houston (2020), larger companies typically have better access to financing and business networks, enabling them to achieve greater economies of scale and improved operational efficiency, thus enhancing their competitiveness and value in the eyes of investors. Several studies have been conducted, including those by Hapsoro and Falih (2020), Natsir and Yusbardini (2020), Nurwulandari, Wibowo, and Hasanudin (2021), Atiningsih and Izzaty (2021), Lestari (2023), and Zulfa, Azam, and Bandono (2024), which found that firm size has a positif effects on firm value, while Susanti and Restiana (2018), Hirdinis (2019), Reschiwati, Syahdina, and Handayani (2020), Wahid, Ambarwati, and Satmoko (2022) have found that firm size has a negative effects on firm value. A larger company size can strengthen investors' perception of the company's strength and sustainability, ultimately increasing the market value of the company. Therefore, it can be concluded that the hypothesis in this study is: H_6: Firm size has a positive effects on firm value.

Profitability is a key factor that reflects a company's financial performance and is often used as an indicator of the company's ability to generate profits. Based on Signaling Theory, high profitability is considered a positive signal for investors as it reflects management efficiency and good growth prospects, ultimately enhancing the attractiveness and value of the company. According to Brigham and Houston (2020), consistent profitability allows a company to strengthen its financial position, support expansion, and enhance flexibility in the face of market uncertainties, all of which contribute to an increase in company value. Several previous studies have been conducted by Sucuahi and Cambarihan (2016), Tui et al. (2017), Rosikah et al. (2018), Zuhroh (2019), Dwiastuti and Dillak (2019), Sari and Sedana (2020), Darmawan et al. (2020), Sughosa and Artini (2020), Natsir and Yusbardini (2020), Jihadi et al. (2021), Yondrichs et al. (2021), Olivia and Wiksuana (2021), Suhendry, Toni, and Simorangkir (2021), Atiningsih and Izzaty (2021), Handayani, Indarto, and Santoso (2022), Faradila and Effendi (2023), Buti and Wiyarni (2023), Lestari (2023), and Budiarti, Moeldjadi, and Wijayanti (2023), which found that profitability has a positive effects on company value, while Zulfa, Azam, and Bandono (2024), found that profitability has a negative effects on company value. High profitability is considered to strengthen investor confidence in the company's long-term potential, thereby increasing the company's market value. Therefore, it can be concluded that the hypothesis in this study is: H_7: Profitability has a positive effects on firm value.

Profitability is considered capable of mediating the effect of liquidity on firm value because companies with high liquidity have greater financial flexibility to fund operations and investments that support achieving higher profits. Based on Signaling Theory, companies that can maintain high liquidity send a signal of financial stability to investors, which can enhance positive perceptions of the company's profitability potential. According to Brigham and Houston (2020), good liquidity can help companies maintain operational smoothness and capitalize on growth opportunities, which ultimately can enhance profitability. Research by Putro and Risman (2021) found that profitability is able to mediate the effect of liquidity on firm value. Good liquidity supports higher profitability, which ultimately increases the company's market value in the eyes of investors. Therefore, it can be concluded that the hypothesis in this study is: H_8: Profitability is capable of mediating the effect of liquidity on firm value.

Profitability is seen as capable of mediating the effect of leverage on company value because well-managed leverage can enhance a company's opportunities to generate higher profits, which subsequently contributes to an increase in company value. Based on Signaling Theory, the appropriate use of leverage demonstrates management's confidence in the company's future prospects, sending a positive signal to investors that the company can manage debt risk while generating stable profitability. According to Brigham and Houston (2020), leverage can be an effective tool for increasing profits, provided that the company can manage debt costs and take advantage of the tax benefits derived from interest payments. Research by Suhendry, Toni, and Simorangkir (2021) found that profitability is able to mediate the relationship between leverage and firm value. Proper leverage can enhance profitability, which ultimately strengthens the firm value in the eyes of investors. Therefore, it can be concluded that the hypothesis in this study is: H_9: Profitability is capable of mediating the effect of leverage on firm value.

Profitability is believed to be capable of mediating the effect of firm size on firm value, where larger company size often indicates the capacity to generate higher profits, which in turn enhances firm value. Based on Signaling Theory, larger companies can provide positive signals to investors regarding stability and growth potential, indicating that they possess competitive advantages and sufficient resources to achieve sustainable profitability. According to Brigham and Houston (2020), larger companies are typically associated with higher operational efficiency and better access to funding sources, which can improve profitability. Subsequent research by Natsir and Yusbardini (2020) and Atiningsih and Izzaty (2021) found that profitability is able to mediate the effect of firm size on firm value. Larger firm size increases profitability, which ultimately enhances the company's value in the eyes of investors. Therefore, it can be concluded that the hypothesis in this study is: H_{10}: Profitability is capable of mediating the effect of firm size on firm value.

Framework

Based on the theoretical basis and the results of previous studies and the problems that have been raised, then as a basis for formulating a hypothesis, the following framework is presented in the research model in the following figure:

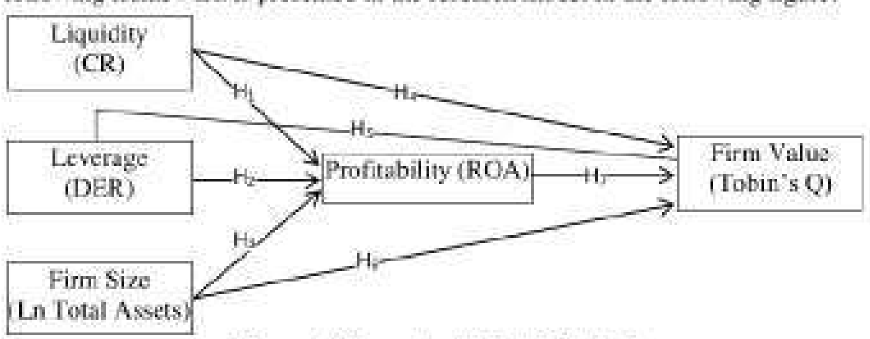

Figure 1. Conseptual Model Method

METHOD

The data used in this study is secondary data obtained the Indonesia Stock Exchange (IDX) website and the websites of the sample companies. The sample used in this research consists of companies listed in the LQ45 Index for the period 2018-2022. The sampling technique employed is purposive sampling, with the following criteria for the companies:

Table 1: Sample Selection Criteria

No	Criteria	Quantity
1	Companies listed in the LQ45 Index for the period of 2018-2022	**71**

2	Companies that are continuously listed in the LQ45 Index for the period of 2018-2022	**(48)**
3	Companies that are part of the banking sector	**(5)**
4	Total sample of companies	**18**
5	Total observation periods	**5**
6	Total research sample: 18 company × 5 periods	**90**

The study employs panel data analysis using EViews 13 software. This technique is appropriate as the data encompasses multiple companies (cross-sections) over several years (time series). Panel data analysis is utilized to control for unobserved variables, providing more efficient and unbiased estimates compared to separate cross-sectional or time series analyses.

Data analysis is performed using panel data in EViews 13, which includes multiple companies (cross-sections) over a defined time period (time series), resulting in more efficient estimates than those from separate cross-sectional or time series analyses. Before conducting regression tests, model selection is carried out using the Chow Test (to choose between the Fixed Effect Model (FEM) or Common Effect Model (CEM)), the Hausman Test (FEM vs. Random Effect Model (REM)), and the Lagrange Multiplier Test (REM vs. CEM).

In this study, firm value serves as the dependent variable, measured by Tobin's Q (the ratio of market value to book value of assets). Profitability is the mediating variable, measured by Return on Assets (ROA), which reflects the ability to generate profit. The independent variables include liquidity, measured by the Current Ratio (CR), indicating the ability to meet short-term obligations; leverage, measured by the Debt to Equity Ratio (DER), which shows the use of debt to finance assets; and firm size, measured by the natural logarithm of total assets.

Operational variables can be summarized in the following table 2 :

Table 2 Definition Operasional Variabel

Variable	**Definition**	**Measurement**	**Scale**
Liquidity (X_1)	Liquidity ratios are ratios that show the relationship between a company's cash and other current assets with its current liabilities. (Brigham and Houston 2020)	$CR = \frac{\text{Current Assets}}{\text{Current Liability}}$ (Adiputra and Hermawan 2020)	Rasio
Leverage (X_2)	The leverage ratio is a ratio used to measure how much of a company's activities are financed with debt, both short-term debt and long-term debt. (Brigham and Houston 2020)	$DER = \frac{\text{Total Utang}}{\text{Total Ekuitas}}$ (Bintara 2020)	Rasio
Firm Size (X_3)	Company size (firm size) is the scale of the company's size which can be classified in various ways, including total revenue, total assets and total equity.	Firm Size = Ln (Total Asset) (Adiputra and Hermawan 2020)	Rasio

	(Brigham and Houston 2020)		
Profitability (Z)	Profitability is the end result of a number of policies and decisions made by a company. (Brigham and Houston 2020)	$ROA = \frac{\text{Earning After Tax}}{\text{Total Asset}}$ (Bintara 2020)	Rasio
Firm Value (Y)	Company value can be interpreted as the market value assessed through share prices and total equity owned by shareholders. (Brigham and Houston 2020)	$TOBIN'S\ Q = \frac{MVE + DEBT}{TA}$ (Adiputra and Hermawan 2020)	Rasio

RESULTS AND DISCUSSIONS

Descriptive Statistics

Based on purposive sampling, there are 18 companies that meet the criteria for this study, covering a total research period of 5 years, resulting in 90 observations. Below are the descriptive statistics for the research sample.

Table 3 Research Results

	CR	DER	SIZE	ROA	TOB_Q
Mean	2.069762	0.995962	31.74953	0.098193	2.370528
Median	1.793200	0.716950	31.73615	0.069050	1.328050
Maximum	5.654800	3.582700	33.65520	0.466600	18.35510
Minimum	0.335600	0.126200	30.42460	-0.057200	0.531200
Std. Dev.	1.222886	0.865086	0.858551	0.091028	3.136242
Observations	90	90	90	90	90

Source : secondary data (2024)

Based on Table 3, the minimum value for liquidity (Current Ratio) is 0.335600, observed in the company EXCL in 2019. The maximum value is 5.654800, recorded by the company INCO in 2022. The mean value is 2.069762, with a standard deviation of 1.222886. The minimum value for leverage (Debt to Equity Ratio) is 0.126200, shown by the company MNCN in 2022, while the maximum value is 3.582700, indicated by the company UNVR in 2022. The mean value for this variable is 0.995962, with a standard deviation of 0.865086.

Next, the minimum value for firm size is 30.42460, observed in the company MNCN in 2018. The maximum value is 33.65520, recorded by the company ASII in 2022. The mean value for this variable is 31.74953, with a standard deviation of 0.858551. The minimum value for profitability (ROA) is –0.057200, shown by the company EXCL in 2018. The maximum value is 0.466600, indicated by the company UNVR in 2018. The mean value for this variable is 0.098193, with a standard deviation of 0.091028. The minimum value for firm value (Tobin's Q) is 0.531200, observed in the company ANTM in 2021, while the maximum value is 18.35510, recorded by the company UNVR in 2018. The mean value for this variable is 2.370528, with a standard deviation of 3.136242.

Normality Test

Structure I : The Influence of Liquidity, Leverage, and Firm Size on Profitability

Table 4: Results of Normality Test for Structure I

Long-run Normality Test Date: 11/05/24 Time: 04:11 Sample: 2018 2022 Included observations: 90		
	Statistic	Prob.
Skewness	0.457209	0.323761
Skewness 3/5	2.651.624	0.004005
Kurtosis	1.378.591	0.084010
Normality	4.733.084	0.093805

Source : secondary data (2024)

Based on Table 4 above, it is noted that the probability value is 0.093805 (>0.05), which allows us to conclude that the data follows a normal distribution.

Structure II : The Influence of Liquidity, Leverage, Firm Size, and Profitability on Firm Value

Table 5: Results of Normality Test for Structure II

Long-run Normality Test		
Date: 11/05/24 Time: 04:11		
Sample: 2018 2022		
Included observations: 90		
	Statistic	Prob.
Skewness	-0.149635	0.559474
Skewness 3/5	1.724.144	0.042341
Kurtosis	1.647.849	0.049692
Normality	3.448.649	0.178293

Source : secondary data (2024)

Based on Table 5 above, it is noted that the probability value is 0.178293 (>0.05), which allows us to conclude that the data follows a normal distribution.

Model Selection Analysis

Structure I : The Influence of Liquidity, Leverage, and Firm Size on Profitability

Based on the Chow Test results, the Cross-section F value is 0.0000 < 0.05, indicating that the chosen model is the Fixed Effect Model. The Hausman Test results show that the Cross-section random value is 0.0005 < 0.05, confirming that the Fixed Effect Model is preferred. The Lagrange Multiplier Test, Breusch-Pagan, also yields a value of 0.0000 < 0.05, leading to the choice of the Random Effect Model. Therefore, it can be concluded that the best model for this study is the Fixed Effect Model.

Structure II : The Influence of Liquidity, Leverage, Firm Size, and Profitability on Firm Value

Similar to Structure I, the Chow Test results indicate a Cross-section F value of 0.0000 < 0.05, leading to the selection of the Fixed Effect Model. The Hausman Test results show a Cross-section random value of 0.0000 < 0.05, confirming the Fixed Effect Model. The Lagrange Multiplier Test also yields a value of 0.0000 < 0.05, supporting the Random Effect Model. Thus, the conclusion remains that the best model for this study is the Fixed Effect Model.

Panel Data Regression Analysis

Structure I : The Influence of Liquidity, Leverage, and Firm Size on Profitability

Table 6 Regression Test Structure I

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.414084	0.696202	-2.031140	0.0461
CR	0.013543	0.010871	1.245752	0.2171
DER	-0.078628	0.018517	-4.246255	0.0001
SIZE	0.049215	0.022228	2.214097	0.0301
	Effects Specification			
Cross-section fixed (dummy variables)				
R-squared	0.868238	Mean dependent var		0.098193
Adjusted R-squared	0.830046	S.D. dependent var		0.091028

Source : secondary data (2024)

Based on Table 6, the regression for Structure I is as follows:

ROA = -1.414084 + 0.013543*CR - 0.078628*DER + 0.049215*SIZE

The regression coefficient value of the liquidity measured by the current ratio is 0.013543 with a probability value of 0.2171 (> 0.05), so the liquidity has no effect on profitability. Based on these results, it can be concluded that H_1 is rejected. The regression coefficient value of leverage measured by the debt to equity ratio is -0.078628 with a probability value of 0.0001 (<0.05), so leverage has a negative effects on profitability. Based on these results, it can be concluded that H_2 is rejected. The regression coefficient value of company size followed by Size is 0.049215 with a probability value of 0.0301 (<0.05), so firm size has a postive effects on profitability. Based on these results, it can be concluded that H_3 is accepted. Furthermore, the Adjusted R-squared value is 0.830046, which allows us to conclude that the influence of liquidity, leverage, and firm size on profitability accounts for 83.00%, while the remaining 17.00% is attributed to other factors.

Structure II : The Influence of Liquidity, Leverage, Firm Size, and Profitability on Firm Value

Table 7 Regression Test Structure II

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	31.74085	16.91184	1.876842	0.0648
CR	0.328991	0.259389	1.268330	0.2090
DER	-1.647843	0.490714	-3.358054	0.0013
SIZE	-0.925157	0.542815	-1.704370	0.0929
ROA	9.809679	2.840672	3.453295	0.0010
	Effects Specification			
Cross-section fixed (dummy variables)				
R-squared	0.939092	Mean dependent var		2.370528
Adjusted R-squared	0.920282	S.D. dependent var		3.136242

Source : secondary data (2024)

Based on Table 7, the regression for Structure II is as follows:

$$TOB\_Q = 31.74085 + 0.328991*CR - 1.647843*DER - 0.925157*SIZE + 9.809679*ROA$$

The regression coefficient value of the liquidity measured by the current ratio is 0.328991 with a probability value of 0.2090 (> 0.05), so the liquidity does not positively effect on firm value. Based on these results, it can be concluded that H_4 is rejected. The regression coefficient value of leverage measured by the debt to equity ratio is -1.647843 with a probability value of 0.0013 (<0.05), so leverage has a negative effect on firm value. Based on these results, it can be concluded that H_5 is rejected. The regression coefficient value of company size followed by Size is -0.925157 with a probability value of 0.0929 (>0.05), so firm size has no negative effect on firm value. Based on these results, it can be concluded that H_6 is rejected. The regression coefficient value of profitability measured by the return on assets is 9.809679 with a probability value of 0.0010 (<0.05), so profitability has a postive effect on firm value. Based on these results, it can be concluded that H_7 is accepted. Furthermore, the Adjusted R-squared value is 0.920282, indicating that the influence of liquidity, leverage, firm size, and profitability on firm value accounts for 92.03%, with the remaining 7.97% influenced by other factors.

Sobel Test

Table 8 Results of the Sobel Test

	Test Statistic	**Std. Error**	**p-value**
CR→ ROA→ Tob. Q	1,17186757	0,11336817	0,24125023
DER→ ROA→ Tob. Q	-2,67915963	0,28789454	0,00738072
SIZE→ ROA→ Tob. Q	1,86389404	0,25901867	0,06233659

Source : secondary data (2024)

From the results of the Sobel test, a *p*-value of 0.24125023 (>0.05) was obtained with a test statistic of 1.17186757 so that H_8 was rejected. Thus, it can be concluded that profitability is unable to mediate the effect of liquidity on firm value. The Sobel test results show a *p*-value of 0.00738072 (< 0.05) with a test statistic of -2.67915963, leading to the acceptance of H_9. This concludes that profitability can mediate the effect of leverage on firm value. The Sobel test results indicate a *p*-value of 0.06233659 (> 0.05) with a test statistic of 1,86389404, leading to the rejection of H_{10}. Thus, it can be concluded that profitability cannot mediate the effect of firm size on firm value.

The Effect of Liquidity on Profitability

This study found that liquidity as measured by the Current Ratio (CR) does not have a positive effect on profitability in LQ 45 index companies. According to Signaling Theory, high liquidity can provide a positive signal to investors regarding the company's financial stability, but if it is not used productively, its impact on profitability is limited. Brigham and Houston (2020) support this view by stating that high liquidity is often maintained for safety purposes, but if the funds are only stored or allocated for less productive activities, its effect on profitability remains minimal.

This finding suggests that although LQ45 companies generally have good financial performance and high liquidity, their ability to meet short-term obligation does not always have a direct impact on increasing profits. This may be due to the less than optimal efficiency of using current assets, such as inventory and receivables, which may not be allocated productively to support revenue-generating activities. In addition, the profitability of LQ45 companies is more likely to be influenced by other factors such as operational strategy, cost structure, leverage, or dividend policy, which are more dominant in influencing financial results. This finding underlines that while high liquidity is important for maintaining financial stability, companies need to ensure that liquid assets are managed efficiently and directed towards investments or operational activities that can increase profitability. This finding is inconsistent with previous studies by Tahu and Susilo (2017), Tui et al. (2017), Nugraha et al. (2020), Suhendry, Toni, and Simorangkir (2021), Ripaluddin, Pasulu, Taufiq (2023), and Nguyen, Le, and Nguyen (2024) found that liquidity has a positive effect on profitability, but this finding is inconsistent with previous studies by Krismunita and Imronudin (2021) and Handayani, Indarto, and Santoso (2022), which found that liquidity did not significantly affect profitability. Thus, this finding reinforces the idea that liquidity, as measured by CR, only provides limited benefits to profitability if not accompanied by an effective asset utilization strategy.

The Effect of Leverage on Profitability

This study found that leverage, as measured by the Debt to Equity Ratio (DER), has a negative effect on profitability, as measured by Return on Assets (ROA), in companies listed in the LQ45 index on the Indonesia Stock Exchange. Based on Signal Theory, optimal leverage can send a positive signal to investors, indicating that the company is confident in managing debt to maximize profitability. According to Brigham and Houston (2020), well-managed leverage can provide tax benefits by reducing taxable income through interest expenses; however, excessive debt use increases the risk of bankruptcy.

In practice, companies in the LQ45 index often utilize debt to enhance operations and expand their markets, particularly when investment opportunities are abundant but internal resources are limited. These findings indicate that higher reliance on debt financing among these leading companies tends to reduce their ability to generate profits from their assets. A high DER typically leads to increased interest expenses and fixed financial obligations, which ultimately erode the company's net profit.

Moreover, a high DER reflects greater financial risk, which can limit a company's operational flexibility in seizing strategic opportunities. The negative impact on profitability may also result from inefficient allocation of debt funds, where investments fail to generate returns higher than the cost of borrowing. For LQ45 companies, which are recognized for their superior financial and operational performance, these results underscore the importance of prudent debt management. While debt can be a tool for driving growth, excessive reliance without careful planning can harm profitability. Therefore, maintaining an optimal balance between debt and equity in the capital structure is crucial to sustaining profitability while managing financial risks effectively.

The findings of this study are inconsistent with previous research by Suhendry, Toni, and Simorangkir (2021), and Ripaluddin, Pasulu, Taufiq (2023) which found that leverage positively affects profitability. However, the results align with studies by Nugraha et al (2020) and Bintara (2020), which found that leverage has a negative effect on profitability.

The Effect of Firm Size on Profitability

This study found that company size, measured using the natural logarithm of total assets (Ln Total Assets), has a positive effect on profitability, as measured by Return on Assets (ROA), in companies listed in the LQ45 index on the Indonesia Stock Exchange. Based on Signal Theory, a larger company sends a positive signal to investors about stability and growth potential, which enhances confidence in the company's ability to generate profits. According to Brigham and Houston (2020), larger companies typically have better access to resources, such as funding, technology, and skilled labor, which supports operational efficiency and profitability.

These findings suggest that large companies in the LQ45 index, which generally have substantial assets, are able to leverage economies of scale and competitive advantages to improve operational efficiency and generate higher profits. As leading companies with strong reputations, LQ45-listed firms usually have easier access to capital markets, allowing them to obtain financing at relatively lower costs. Furthermore, these large companies have greater capabilities in product diversification, market penetration, and risk management, all of which contribute to improved profitability. The large size of these companies also gives them strong bargaining power with suppliers and customers, creating opportunities to enhance profit margins.

However, these findings also emphasize the importance of effective asset management, even for large companies listed in LQ45. Large assets will not provide maximum benefits if they are not utilized efficiently to support value-generating activities. Therefore, companies must continuously improve their asset management strategies to ensure a positive contribution to profitability. These results indicate that company size is one of the key factors that can support profitability, especially in a competitive business environment like the LQ45 index. Large companies that successfully leverage economies of scale and competitive advantages tend to have better financial performance compared to smaller companies.

This finding is consistent with previous research conducted by Hirdinis (2019), Natsir and Yusbardini (2020), and Atiningsih and Izzaty (2021), which found that company size influences profitability, as larger companies can optimize their assets for productive activities and achieve higher profits.

The Effect of Liquidity on Firm Value

This study shows that liquidity, measured using the Current Ratio (CR), does not positively effect on firm value, measured by Tobin's Q, for companies listed on the LQ45 index on the Indonesia Stock Exchange. According to Signal Theory, high liquidity should indicate financial stability, but if current assets are not productively invested in ventures with high returns, their impact on firm value remains limited. Brigham and Houston (2020) also emphasize that excessive liquidity may signal inefficient use of assets, as liquid assets not allocated to productive investments do not directly contribute to increasing firm value.

In practice, many companies in the LQ45 index maintain high liquidity as a reserve against economic uncertainty, but they tend not to use it for long-term value growth. These findings indicate that a company's ability to meet its short-term obligations is not a primary factor influencing the market's perception of firm value among these prominent companies. Excessive liquidity in large companies, such as those listed in LQ45, may reflect inefficient cash management. Investors might view this as an indication that available funds are not being utilized for productive investment opportunities, such as business expansion, product innovation, or diversification strategies. Consequently, the market prioritizes other factors, such as profitability, growth prospects, and operational efficiency, when assessing firm value.

Companies in the LQ45 index generally have easy access to low-cost external financing due to their reputation and credibility. Therefore, liquidity in the form of high current assets may be less relevant compared to long-term investment and growth strategies. Furthermore, the capital market tends to value companies that enhance operational efficiency and allocate resources optimally rather than those that merely maintain high liquidity.

These results also reflect that the Indonesian capital market, particularly in the LQ45 context, is more influenced by strategic indicators such as return on investment, earnings stability, and innovation rather than merely the company's ability to meet short-term obligations. Thus, while liquidity remains essential for maintaining operational stability, LQ45 companies need to focus on strategies that enhance added value and attract investor interest.

These findings align with previous research suggesting that liquidity does not always have a direct impact on firm value, particularly in large and well-established companies. However, it is crucial for companies to maintain a balance of sufficient liquidity, not only to ensure operational stability but also to support the implementation of growth strategies that can increase firm value in the eyes of investors.

The results of this study contradict those of Kahfi, Pratomo, and Aminah (2018), Hapsoro and Falih (2020), Reschiwati, Syahdina, and Handayani (2020), Darmawan et al. (2020), Jihadi (2021), and Ripaluddin, Pasulu, Taufiq (2023), who found that liquidity positively affects firm value. However, the findings are consistent with Olivia and Wiksuana (2021), and Ripaluddin, Pasulu, Taufiq (2023), Adiputra and Hermawan (2020), Putro and Risman (2021), Suhendry, Toni, and Simorangkir (2021), Nurwulandari, Wibowo, and Hasanudin (2021), Yondrichs (2021), Wahid, Ambarwati, and Satmoko (2022), Handayani, Indarto, and Santoso (2022), Budiarti, Moeldjadi, and Wijayanti (2023), Yuliyanti et al. (2023), dan Zulfa, Azam, and Bandono (2024), who found that liquidity does not positively effect on firm value.

The Effect of Leverage on Firm Value

This study found that leverage, as measured by the Debt to Equity Ratio (DER), has a negative effect on firm value as measured by Tobin's Q, in companies listed in the LQ45 index on the Indonesia Stock Exchange. According to Signal Theory, appropriate leverage sends a positive signal to investors that the company can manage debt to improve performance and value. Brigham and Houston (2020) noted that leverage can offer tax benefits through interest deductions; however, excessive debt increases the risk of bankruptcy, which has the potential to reduce the perception of the company's value. In practice, LQ45 index companies often use leverage to strengthen capital and expand the market, thereby increasing their attractiveness to investors.

This negative relationship suggests that leading companies in the LQ45 that have high leverage levels tend to experience a decline in the company's value perceived by the market. In the context of LQ45 companies, which generally have a good reputation and easier access to external financing, high leverage can raise concerns among investors regarding financial risk. Heavy reliance on debt financing can increase interest expenses, thereby reducing net income available to shareholders. This can also exacerbate liquidity risk, especially in uncertain economic conditions.

Furthermore, high DER in LQ45 companies can be seen as an indication of lack of efficiency in capital structure management. Although these companies usually have the capacity to attract investment due to their reputation and credibility, excessive use of debt can reduce their financial flexibility in allocating funds to strategic growth opportunities, such as business expansion, diversification, or product innovation.

From a market perspective, investors tend to focus more on other performance indicators, such as profitability, operational efficiency, and growth stability, compared to high levels of leverage. Excessive leverage can also create the perception that the company is riskier and less oriented towards long-term growth, which ultimately reduces the company's market value as reflected in Tobin's Q.

The results of this study imply that companies in the LQ45 index need to maintain a balance between the use of debt and equity in their capital structure. Focusing on operational efficiency, financial stability, and sustainable growth strategies is more likely to attract investors and increase the company's value in the eyes of the market.

The results of the study are not in line with the results of studies conducted by Lestari (2023), Jihadi et al. (2021), Wahid, Ambarwati, and Satrnoko (2022), Yuliyanti et al. (2023), and Zulfa, Azam, and Bandono (2024), which found that leverage has a positive effect on firm value. However, the results of this study are in line with the results of studies conducted by Fosu et al. (2016), Kahfi, Pratomo, and Aminah (2018), Simorangkir (2019), and Ripaluddin, Pasulu, Taufiq (2023), which found that leverage has a negative effect on firm value.

The Effect of Firm Size on Firm Value

The research findings indicate that firm size, measured by Ln Total Assets, does not have a negative effect on firm value, measured by Tobin's Q. This means that the total assets owned by a company do not significantly impact the perceived market value of the firm in a way that decreases it. In the context of signaling theory, large companies with greater resources and stability do not necessarily send positive signals to investors, especially if they face managerial challenges or operational inefficiencies. According to Brigham and Houston (2020), in a competitive business environment, firm size alone is not a determining factor of value.

Firm size is often seen as an indicator of operational strength and financial stability. Companies with substantial assets generally possess a higher capacity to operate on a larger scale, diversify revenue streams, and mitigate external risks.

However, in this case, the findings suggest that merely owning significant assets is insufficient to produce either a negative or positive impact on firm value.

The market tends to evaluate more than just the size of assets, focusing instead on how effectively a company manages and utilizes those assets to generate revenue, profit, and returns on investment. If a company fails to optimize asset utilization, having a larger size does not necessarily provide a competitive advantage. Conversely, the market is likely to prioritize operational efficiency, asset productivity, and the long-term investment strategies implemented by the company.

In the context of large companies such as those listed in the LQ45 index, firm size may not be the primary factor influencing value. These companies typically have other advantages, such as easy access to financing, strong reputations, and opportunities to achieve economies of scale. Therefore, the market is more inclined to assess performance based on other indicators, such as profitability, innovation, revenue growth, or business diversification, rather than merely the size of the company's assets.

These findings differ from those of previous studies by Hapsoro and Falih (2020), Natsir and Yusbardini (2020), Nurwulandari, Wibowo, and Hasanudin (2021), Atiningsih and Izzaty (2021), Lestari (2023), and Zulfa, Azam, and Bandono (2024), which found that firm size has a positive effect on firm value. Similarly, they contrast with studies by Susanti and Restiana (2018), Hirdinis (2019), Reschiwati, Syahdina, and Handayani (2020), and Wahid, Ambarwati, and Satmoko (2022), which found that firm size negatively affects firm value. However, these results align with findings by Adiputra and Hermawan (2020), and Yulandri, Hertina, and Asih (2023), which found that firm size does not have a negative impact on firm value.

The Effect of Profitability on Firm Value

The research findings indicate that profitability, measured using Return on Assets (ROA), has a positive effect on firm value, as measured by Tobin's Q. This implies that the higher a company's ability to generate profits from its total assets, the higher the firm's value perceived by the market.

High profitability reflects a company's efficiency in utilizing its assets to generate income. In financial theory, strong profitability sends a positive signal to investors about the company's financial health and its capacity to deliver sustainable returns. This aligns with Signaling Theory, which posits that good financial performance builds investor confidence and enhances the company's attractiveness in capital markets. As noted by Brigham and Houston (2020), in a competitive business environment, investors tend to focus on financial performance as an indicator of growth potential, where strong profitability fosters trust in the company's capacity for expansion.

A high ROA also demonstrates effective asset management and significant net profit generation. Consequently, companies with high ROA are considered more appealing as they signify operational efficiency and the potential to provide substantial returns to shareholders.

In the context of companies listed in the LQ45 index, the positive effect of profitability on firm value becomes even more relevant. These firms typically have better access to resources and larger business opportunities, making the profits they generate more impactful on their market value. A high Tobin's Q value in such companies reflects market appreciation for their efficiency and profitability performance.

These findings are consistent with previous studies conducted by Sucuahi and Cambarihan (2016), Tui et al. (2017), Rosikah et al. (2018), Zuhroh (2019), Dwiastuti and Dillak (2019), Sari and Sedana (2020), Darmawan et al. (2020), Sughosa and Artini (2020), Natsir and Yusbardini (2020), Jihadi et al. (2021), Yondrichs et al. (2021), Olivia and Wiksuana (2021), Suhendry, Toni, and Simorangkir (2021), Atiningsih and Izzaty (2021), Handayani, Indarto, and Santoso (2022), Faradila and Effendi (2023), Buti and Wiyarni (2023), Lestari (2023), and Budiarti, Moeldjadi, and Wijayanti (2023), which also found that profitability positively influences firm value.

Profitability as a Mediator of the Effect of Liquidity on Firm Value

This study reveals that profitability, measured using Return on Assets (ROA), is unable to mediate the effect of liquidity, measured by the Current Ratio (CR), on firm value, measured by Tobin's Q. This indicates that while liquidity is an important factor, profitability does not always function as a linking element that strengthens the relationship. In the context of signaling theory, good liquidity can provide a positive signal about a company's financial health. However, if profitability is low, investors may remain skeptical about the company's long-term growth prospects, thereby hindering an increase in firm value. Brigham and Houston (2020) state that companies with high liquidity but low profitability are often perceived as high-risk, reducing their attractiveness to investors.

These findings suggest that although liquidity reflects a company's ability to meet its short-term obligations, it does not significantly influence firm value through the profitability pathway. In this context, profitability does not serve as a mediator that strengthens the relationship between liquidity and firm value.

From a liquidity perspective, the CR is often used to assess a company's ability to maintain short-term financial stability. However, a high liquidity ratio does not necessarily indicate efficient utilization of assets or working capital to generate profits. If a company merely maintains liquidity without utilizing excess current assets to support operational or investment activities, its impact on profitability—and consequently on firm value—becomes limited.

Profitability, represented by ROA, typically reflects a company's efficiency in managing assets to generate profits. In many studies, profitability is expected to serve as a mediator in the relationship between other financial variables and firm value. However, this study reveals that ROA cannot strengthen the relationship between CR and Tobin's Q. This may be because high liquidity does not always generate sufficient profits to influence market perceptions of firm value. In other words, the market may not focus solely on liquidity and profitability but also consider other variables, such as growth, innovation, or investment strategies.

This study, conducted on companies listed in the LQ45 index, further validates these findings. Companies within the LQ45 index typically have greater access to resources and business opportunities, making their liquidity more stable. However, in a competitive environment, the market tends to evaluate companies based on other indicators such as operational efficiency, innovation, or long-term growth strategies, rather than solely focusing on the relationship between liquidity and profitability.

These findings align with studies by Handayani, Indar[9], and Santoso (2022) and Ripaluddin, Pasulu, Taufiq (2023), which also found that profitability does not mediate the effect of liquidity on firm value. Liquidity can directly impact firm value without requiring profitability as a mediator, highlighting that companies may have strong cash flows but are inefficient in generating profits. These results underscore the complexity of the relationship between liquidity, profitability, and firm value, where other factors may play a more dominant role in shaping investor perceptions.

Profitability as a Mediator of the Effect of Leverage on Firm Value

The research findings indicate[5]hat profitability, as measured by Return on Assets (ROA), plays a crucial role as a mediator in the relationship between leverage, measured by the Debt to Equity Ratio (DER), and firm value, measured by Tobin's Q. In other words, the influence of leverage on firm value is not solely direct but also involves profitability as a connecting pathway.

High leverage, as reflected by a high DER, indicates that a company significantly utilizes debt in its capital structure. This can provide strategic advantages if the debt is allocated to productive investments, leading to higher profits. However, high leverage also entails substantial financial risks, such as the potential for default, which may diminish investor confidence. In this context, profitability serves as a key indicator of the company's efficiency in utilizing its assets to generate profits while managing the risks associated with debt usage.

When a company is able to optimally use debt to boost productivity and generate substantial net income, it reflects sound financial management. High ROA signals to the market that the company effectively manages its assets, even under significant debt obligations. This, in turn, enhances investor confidence in the company's ability to sustain growth, thereby increasing firm value, as evidenced by an improvement in Tobin's Q.

Under the framework of signaling theory, companies with strong profitability send positive signals to investors, demonstrating their ability to not only manage leverage-related risks but also deliver significant returns. High profitability creates a perception that the company has solid fundamentals, strong competitiveness, and promising long-term growth prospects, thereby boosting its value in the eyes of the market. Brigham and Houston (2020) emphasize that as long as companies can generate sufficient profits to cover debt costs, leverage can enhance shareholder returns.

This study underscores the importance of proper leverage management, with profitability serving as a critical success factor. Leverage utilized without sufficient profitability may only amplify risks. However, when accompanied by improved operational efficiency, as reflected by a higher ROA, its impact on firm value becomes more significant. Thus, companies that successfully manage this relationship are more likely to attract investor interest and enhance their competitiveness in the market.

These findings align with the research by Suhend[5], Toni, and Simorangkir (2021), which also found that profitability mediates the relationship between leverage and firm value. Profitability plays a vital role in bridging the gap between leverage and firm value, as companies that efficiently manage debt and generate profits tend to have higher perceived value among investors. This demonstrates that profitability not only reflects a company's financial health but also enhances investors' perceptions of the risks and potential returns associated with the use of debt.

Profitability as a Mediator of the Effect of Firm Size on Firm Value

7 The study conducted on companies listed in the LQ45 index reveals that profitability, 8 measured using Return on Assets (ROA), fails to mediate the influence of firm size, measured by Ln Total Assets, on firm value, measured by Tobin's Q. This finding indicates that, although companies in the LQ45 index generally possess substantial assets, the profitability generated from these assets is not sufficiently significant to strengthen the relationship between firm size and firm value.

Companies within the LQ45 index are known for their large market capitalization and extensive access to capital markets. However, the results show that possessing large assets alone is insufficient to enhance firm value through profitability. One possible explanation is that these sizable assets are not yet optimally managed to generate profits. High operational costs, long-term investments that have not yielded results, or reliance on specific markets could hinder the efficiency of asset utilization.

Moreover, investors focusing on LQ45 companies tend to consider various factors beyond firm size and profitability. Indicators such as innovation, sustainability, long-term growth strategies, and global competitiveness are often prioritized. Thus, having substantial assets without accompanying operational efficiency and effective profit management might not significantly impact investors' perception of firm value.

Under signaling theory, large firms often signal stability and business continuity to investors; however, firm size alone does not guarantee high profitability. High profitability can deliver positive signals about a company's financial efficiency and sustainability. Brigham and Houston (2020) explain that in practice, large companies with extensive assets may not always efficiently manage their resources, leading to lower profitability. 2 this case, if ROA is not sufficiently high, investors remain skeptical about the company's ability to optimally utilize its assets. This highlights the need for LQ45 companies to focus not only on asset accumulation but also on efficient management to generate significant profits.

The findings of this study carry important implications for companies in the LQ45 index. These companies need to improve the efficiency of managing their large assets to boost net profits. Additionally, it is crucial for them to develop long-term strategies involving innovation, business diversification, and better cost management. Through such efforts, these companies can send positive signals to investors about their financial fundamentals while simultaneously enhancing firm value.

This research aligns with the findings of Hirdinis (2019), which showed that profitability does not mediate the relationship between firm size and firm value. This underscores the complexity of the relationship between firm size, profitability, and firm value, where profitability may not always act as a determining factor in the context of firm size. Despite the advantages of large assets and stable liquidity that LQ45 companies hold, their success in increasing firm value depends on their ability to manage those assets efficiently. By focusing on profitability and other relevant factors, companies in the LQ45 index can enhance their competitiveness and attractiveness to investors.

CONCLUSIONS

This study makes a significant contribution to the development of theory and practice in the capital market, particularly in the context of the relationships between liquidity, leverage, firm size, profitability, and firm value. The findings indicate that liquidity does not positively affect profitability, leverage has a negative effect, while firm size has a positive effect on profitability. Furthermore, liquidity does not positively affect firm value, leverage negatively affects firm value, firm size does not negatively affect firm value, while profitability positively influences firm value. Additionally, profitability does not mediate the effects of liquidity and firm size on firm value but can mediate the effect of leverage on firm value.

This research provides valuable insights into the relationships among these variables in the Indonesian capital market, particularly for companies in the LQ45 index. Theoretically, it demonstrates that profitability mediates the effect of leverage on firm value but does not mediate the effects of liquidity and firm size, emphasizing the importance of operational efficiency in supporting these relationships. Within the framework of Signaling Theory, the study highlights that signals from liquidity and firm size are only effective if supported by significant profitability. Practically, the findings underscore the importance of prudent leverage management, asset optimization, and long-term growth strategies such as innovation and diversification to enhance a firm's competitiveness. Investors are advised to be cautious when evaluating companies with high leverage but low profitability, while policymakers are encouraged to enhance financial transparency and promote efficient asset management to build market trust. The study emphasizes that large assets or high liquidity alone are insufficient to enhance firm value without optimal management and well-directed business strategies.

The study utilized data from companies in the LQ45 index during the 2018–2022 period. This limitation may restrict the generalizability of the findings to all companies listed on the Indonesia Stock Exchange (IDX) or those in other sectors. While the study considers important variables such as liquidity, leverage, firm size, and profitability, other variables, such as innovation, risk management, or corporate governance quality, may also influence firm value but were not included in the research model.

The study employed panel data analysis using the Fixed Effects Model, which is suitable for panel data but may not fully capture all internal company dynamics, particularly those related to external factors such as macroeconomic conditions or regulatory changes. To expand the utility of these findings, future research is recommended to include companies outside the LQ45 index, incorporate additional variables such as innovation or corporate governance, and utilize more complex methodologies such as structural equation modeling (SEM).

These approaches can provide deeper insights into the financial dynamics of the Indonesian capital market.

Companies are advised to prioritize efficiency in leverage management to ensure debt is productively utilized in profit-generating activities, as high leverage without a solid strategy can diminish firm value. Additionally, firms with large assets should optimize asset management to support growth and innovation and develop diversification strategies and product innovation to maintain competitiveness in the capital market. Good financial transparency and corporate governance are also essential for building investor confidence, particularly among institutional investors who are more sensitive to risk. For investors, it is important to prioritize profitability as a key indicator when evaluating companies with high leverage, as it reflects the firm's ability to manage financial risks and generate returns. Investors should also consider asset management efficiency and non-financial factors such as innovation, governance, and sustainability to assess a company's growth potential. To mitigate risks, diversifying portfolios across various sectors and firm sizes is also recommended to enable more informed investment decisions.

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Ady Inrawan, Darwin Lie:

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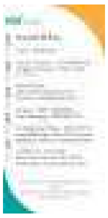

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The Role Of Profitability In Mediating Determinants Of Firm Value

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Keywords: profitability, liquidity, leverage, firm size, firm value

Abstract

This study aims to analyze the role of profitability in mediating the relationship between liquidity, leverage, and firm size on firm value. The data used in this study are secondary data obtained from the Indonesia Stock Exchange websites. The population comprises 71 companies listed in the LQ45 index for 2018-2022. The study sample includes 18 non-bank companies within the LQ45 index, selected through purposive sampling, yielding 90 observations over five years. Data analysis was conducted using panel data with EViews 13 software. Model selection was carried out through the Chow, Hausman, and Lagrange Multiplier tests. The study results show that liquidity does not affect profitability, while leverage negatively affects profitability, but company size positively affects profitability. Furthermore, leverage negatively affects firm value, liquidity, and company size do not affect firm value, but profitability positively affects firm value. Profitability cannot mediate the effect of liquidity and firm size on firm value, but profitability can mediate the effect of leverage on firm value. Theoretically, this research complements previous theories and serves as a reference for future studies. Practically, investors can utilize this information to exercise caution when assessing companies with high leverage levels but low profitability.

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THE ROLE OF PROFITABILITY IN MEDIATING DETERMINANTS OF FIRM VALUE

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ABSTRACT

This study aims to analyze the role of profitability in mediating the relationship between liquidity, leverage, and firm size on firm value. The data used in this study are secondary data obtained from the Indonesia Stock Exchange websites. The population comprises 71 companies listed in the LQ45 index for 2018-2022. The study sample includes 18 non-bank companies within the LQ45 index, selected through purposive sampling, yielding 90 observations over five years. Data analysis was conducted using panel data with EViews 13 software. Model selection was carried out through the Chow, Hausman, and Lagrange Multiplier tests. The study results show that liquidity does not affect profitability, while leverage negatively affects profitability, but company size positively affects profitability. Furthermore, leverage negatively affects firm value, liquidity, and company size do not affect firm value, but profitability positively affects firm value. Profitability cannot mediate the effect of liquidity and firm size on firm value, but profitability can mediate the effect of leverage on firm value. Theoretically, this research complements previous theories and serves as a reference for future studies. Practically, investors can utilize this information to exercise caution when assessing companies with high leverage levels but low profitability.

Keywords: profitability, liquidity, leverage, firm size, firm value.

INTRODUCTION

Firm value is one of the primary indicator's investors use to assess a company's performance and prospects. High firm value reflects investor confidence in the company's ability to generate profits and sustain itself over the long term. Maximizing firm value is crucial for a company, as it also maximizes shareholder wealth, which is the primary objective of a business (Anggeriani, Fachrudin, and Silalahi 2018). Firm value has become a primary focus in business and academics as it reflects investors' perceptions of a company's prospects and performance (Kurniati 2019). However, in practice, firm value is only sometimes stable and can be influenced by various internal and external factors. For instance, during periods of global economic uncertainty, such as a pandemic or financial crisis, firm value tends to fluctuate due to changes in investors' perceptions of risks and opportunities (Qiu et al. 2021).

On the other hand, companies with strong financial performance, as indicated by high profitability or an optimal capital structure, only sometimes sustain their firm value if complemented by innovation, reputation, and effective risk management (Abdi, Li, and Càmara-Turull 2020). This phenomenon illustrates the complexity of the relationship between a company's internal performance, external conditions, and market behavior in determining firm value.

Numerous studies have examined factors affecting firm value, yet their findings have been inconsistent. Factors such as liquidity, leverage, firm size, and profitability significantly influence firm value, as each reflects key aspects of a company's financial health and prospects.

High liquidity signals to investors that the company has sound financial health and a low risk of bankruptcy. However, excessive liquidity may also indicate that a company is not optimally utilizing its financial resources. Several studies have examined the influence of liquidity on firm value, including Kahfi, Pratomo, and Aminah (2018); Darmawan et al. (2020); Hapsoro and Falih (2020); Reschiwati, Syahdina, and Handayani (2020); Jihadi et al. (2021); Ripaluddin, Pasulu, and Taufiq (2023) liquidity has a positive effect on firm value. In contrast, studies by Tui et al. (2017); Adiputra and Hermawan (2020); Sari and Sedana (2020); Nurwulandari, Wibowo, and Hasanudin (2021); Putro and Risman (2021); Suhendry, Toni, and Simorangkir (2021); Yondrichs et al. (2021); Handayani, Indarto, and Santoso (2022); Wahid, Ambarwati, and Satmoko (2022); Budiarti, Moeldjadi, and Wijayanti (2023); Panjaitan and Supriyati (2023); Zulfa, Azam, and Bandono (2024) indicate that liquidity does not affect firm value.

The leverage ratio measures the extent to which a company's activities are financed by debt, including both short-term and long-term debt. A higher leverage ratio indicates a greater dependence on external parties (creditors) and larger interest expenses the company must pay. Several studies have examined the influence of leverage on firm value, including Fosu et al. (2016); Kahfi, Pratomo, and Aminah (2018); Simorangkir (2019); Jihadi et al. (2021); Wahid, Ambarwati, and Satmoko (2022); Lestari (2023); Panjaitan and Supriyati (2023); Ripaluddin, Pasulu, and Taufiq (2023); Zulfa, Azam, and Bandono (2024), which found that leverage significantly affects firm value. In contrast, research by Dwiastuti and Dillak (2019); Suhendry, Toni, and Simorangkir (2021); Almomani et al. (2022); Handayani, Indarto, and Santoso (2022); Habakkuk, Nduati, and Wang'ombe (2023); Yulandri, Hertina, and Asih (2023) found that leverage does not affect firm value.

Firm size is also a significant factor in determining firm value. Larger companies typically have better access to resources and capital markets, which can help them maintain stable performance and enhance firm value. However, company size can also lead to inefficiencies that negatively impact firm value. Several studies have examined the influence of firm size on firm value, including Anggeriani, Fachrudin, and Silalahi (2018); Susanti and Restiana (2018); Hirdinis (2019); Hapsoro and Falih (2020); Natsir and Yusbardini (2020); Nugraha et al. (2020); Reschiwati, Syahdina, and Handayani (2020); Sugosha and Artini (2020); Atiningsih and Izzaty (2021); Nurwulandari, Wibowo, and Hasanudin (2021); Wahid, Ambarwati, and Satmoko (2022); Lestari (2023); Zulfa, Azam, and Bandono (2024), which found that firm size has a effects on firm value. In contrast, research by Tui et al. (2017); Dwiastuti and Dillak (2019); Adiputra and Hermawan (2020); Nurwulandari, Wibowo, and Hasanudin (2021); Handayani, Indarto, and Santoso (2022); Yulandri, Hertina, and Asih (2023); Hechmi and Saanoun (2024) found that firm size does not affect firm value.

High profitability can enhance investor confidence, which in turn can increase firm value. Profitability is the result of a series of policies and decisions made by the company (Brigham and Houston 2020). Several studies have examined the influence of profitability on firm value, including Sucuahi and Cambarihan (2016); Tui et al. (2017); Rosikah et al. (2018); Dwiastuti and Dillak (2019); Zuhroh (2019); Darmawan et al. (2020); Natsir and Yusbardini (2020); Sari and Sedana (2020); Sugosha and Artini (2020); Syamsudin et al. (2020); Atiningsih and Izzaty (2021); Jihadi et al. (2021); Putri and Wiksuana (2021); Suhendry, Toni, and Simorangkir (2021); Yondrichs et al. (2021); Handayani, Indarto, and Santoso (2022); Budiarti, Moeldjadi, and Wijayanti (2023); Buti and Wiyarni (2023); Faradila and Effendi (2023); Lestari (2023); Yulianti et al (2024); Zulfa, Azam, and Bandono (2024), which found that profitability affects firm value. In contrast, research conducted by Astuti, Wahyudi, and Mawardi (2018); Hapsoro and Falih (2020); Reschiwati, Syahdina, and Handayani (2020); Nurwulandari, Wibowo, and Hasanudin (2021); Ripaluddin, Pasulu, and Taufiq (2023); Yulianti et al. (Panjaitan and Supriyati 2023) found that profitability does not affect firm value.

Maintaining liquidity allows the company to operate efficiently, supporting increased profitability. Several studies have examined the influence of liquidity on profitability, including Tahu and Susilo (2017); Tui et al. (2017); Bintara (2020); Nugraha et al. (2020); Suhendry, Toni, and Simorangkir (2021); Ripaluddin, Pasulu, and Taufiq (2023); Nguyen, Le, and Nguyen (2024), which found that liquidity affects profitability. In contrast, research conducted by Krismunita and Imronudin (2021); Handayani, Indarto, and Santoso (2022) found that liquidity does not affect profitability. Optimal use of leverage allows a company to finance investments without sacrificing equity, thereby increasing potential profits and growth. Several studies have examined the effect of leverage on profitability, including Bintara (2020); Nugraha et al. (2020); Suhendry, Toni, and Simorangkir (2021); Ripaluddin, Pasulu, and Taufiq (2023), which found that leverage affects profitability. In contrast, research by Hamidah (2016); Makhdalena (2018); Ramadhanti, Amaliawiati, and Nugraha (2021); Handayani, Indarto, and Santoso (2022) found that leverage does not affect profitability. Larger companies generally have more resources, better market access, and the ability to use economies of scale. Several studies have examined the effect of firm size on profitability, including Hirdinis (2019); Natsir and Yusbardini (2020); Atiningsih and Izzaty (2021) found that firm size has a positive effects on profitability. In contrast, research by Tui et al. (2017); Lorenza, Kadir, and Sjahruddin (2020) found that firm size does not affect profitability. Previous research on the direct influence of liquidity, leverage, and firm size on company value and profitability showed inconsistent results; this opens a research gap.

Furthermore, studies on the mediating role of profitability on firm value have been conducted by Putro and Risman (2021) found that profitability can mediate the effect of liquidity on firm value. However, the studies by Handayani, Indarto, and Santoso (2022); Ripaluddin, Pasulu, and Taufiq (2023) found that profitability cannot mediate the effect of liquidity on firm value. Additionally, the study by Suhendry, Toni, and Simorangkir (2021) found that profitability can mediate the relationship between leverage and firm value, while the research by Ripaluddin, Pasulu, and Taufiq (2023) found that profitability does not mediate the relationship between leverage and firm value. Then subsequent studies by Natsir and Yusbardini (2020); Atiningsih and Izzaty (2021) found that profitability can mediate the effect of firm size on firm value. Meanwhile, Hirdinis (2019) found that profitability does not mediate the relationship between firm size and firm value. Previous research on the indirect effects of liquidity, leverage, and firm size on firm value through profitability has shown inconsistent results; this may also open research gaps.

The novelty of this research lies in the comprehensive approach used to analyze the role of profitability as a mediating variable in the effects of liquidity, leverage, and firm size on firm value. While most previous studies tend to examine these variables separately or only focus on their direct influence on firm value, research on the role of profitability as a mediator of these variables is still lacking, so this study offers an integrated approach by evaluating all three variables simultaneously. This provides a new perspective that enriches the academic literature and generates deeper insights into the mediating role of profitability in enhancing firm value. This research is highly urgent as it aims to address the inconsistencies in the results of previous studies. Considering that firm value is a primary reference for investors in making investment decisions, understanding the role of profitability as a mediating variable will provide practical guidance for companies in enhancing investor confidence and attractiveness. This study aims to analyze the effect of liquidity, leverage, and company size on company value with profitability as a mediator, both directly and indirectly. Additionally, this study aims to explain how these three variables influence firm value comprehensively. The findings of this research are expected to contribute academically by enriching the literature on the role of profitability as a mediating variable. It can guide financial managers in making decisions about liquidity management, leverage, and firm size, ultimately enhancing profitability and firm value.

LITERATURE REVIEW

Signaling Theory

Signaling theory was proposed by Spence (1973), suggesting that asymmetric information between company managers and investors can be addressed through signals provided by management. In this context, companies use financial reports or strategic actions as signals to investors regarding the company's condition and prospects. The information management conveys through financial statements, dividend policies, or investment decisions can signal the company's status and future potential to external parties (Brigham and Houston 2020). These signals help reduce the information asymmetry between managers and investors, assisting investors in making better investment decisions.

Firm Value

The firm value represents the market's perception of the company's overall performance and prospects. Firm value can be defined as the market value assessed through stock price and the total equity held by shareholders (Brigham and Houston 2020). Firm value is crucial because the primary objective of financial management is to maximize it for the benefit of shareholders. A standard measure used to assess firm value is Tobin's Q, which is the ratio of the company's market value of assets (market capitalization) to the replacement cost of the company's assets.

Profitability

Profitability is a measure of a company's performance in generating profit relative to its sales, assets, or equity. Profitability is a key indicator in assessing how efficiently a company's management utilizes its resources to generate earnings (Brigham and Houston 2020). High profitability indicates that the company has successfully managed its assets efficiently to generate profits, which indicates good financial performance. Profitability is also often used as a mediating variable that strengthens the relationship between other financial factors and company value, as good performance typically enhances investor confidence.

Liquidity

Liquidity refers to a company's ability to meet its short-term obligations as they come due without facing financial difficulties. Liquidity is crucial for a company as it reflects the ability to convert current assets into cash to fulfil short-term liabilities (Brigham and Houston 2020). High liquidity can reduce the risk of bankruptcy because the company can meet its short-term obligations. However, excessive liquidity may also indicate inefficient cash management, as excess current assets can decrease profitability.

Leverage

Leverage refers to using debt financing to enhance the potential return to a company's shareholders. Leverage reflects the extent to which a company utilizes debt in its capital structure, which can increase risk and potential returns for shareholders (Brigham and Houston 2020). Leverage could provide benefits in the form of increased profits if the investments financed with debt yield returns greater than the cost of the debt itself. However, leverage also carries financial risks because the higher the debt, the greater the obligation for interest and principal repayments the company must fulfil. If a company fails to meet these obligations, it could lead to bankruptcy. Companies with high leverage have more debt than equity, which can provide tax benefits and heighten financial risk. High leverage can increase the value of a company due to tax advantages, but if it becomes excessive, it may raise the risk of bankruptcy.

Firm Size

Firm size is an important factor in financial analysis and management strategy. Firm size, measured by total assets or sales, reflects the capacity and stability of a company in its operations and can influence market perceptions (Brigham and Houston 2020). Firm size is often associated with the total assets owned, which reflects the magnitude of resources available to support business operations and expansion. Generally, the larger the company size, the greater its capacity to obtain financing from capital markets, whether through equity or debt.

Hypothesis Development

In signaling theory, high liquidity can serve as a positive signal for investors, indicating that the company can meet its short-term obligations and manage cash efficiently, which in turn can enhance investor confidence and create opportunities for increased profitability. Adequate liquidity allows a company to exploit profitable investment opportunities and avoid costs associated with late payments or reliance on short-term funding sources (Brigham and Houston 2020). Several previous studies conducted by Tahu and Susilo (2017); Tui et al. (2017); Nugraha et al. (2020); Suhendry, Toni, and Simorangkir (2021) Ripaluddin, Pasulu, and Taufiq (2023); Nguyen, Le, and Nguyen (2024) found that liquidity has a positive effect on profitability. Companies with adequate cash reserves tend to be more stable and flexible in investing in productive assets, ultimately enhancing their financial performance. This indicates that good liquidity management maintains financial stability and can act as a catalyst for improving the company's profitability. Therefore, the hypothesis in this study is: H_1: Liquidity has a positive effect on profitability.

Leverage refers to the use of debt by a company in its capital structure, which can signal management's confidence in the company's ability to generate sufficient profits to meet its debt obligations. Based on signaling theory, an optimal level of leverage is considered a positive signal for investors, indicating that the company is willing to take on debt because it expects its future performance to cover the associated costs. Leverage can enhance the value of a company since debt is often a cheaper funding source than equity, and the interest on debt can provide tax benefits (Brigham and Houston 2020). Research by Suhendry, Toni, and Simorangkir (2021) Ripaluddin, Pasulu, and Taufiq (2023) found that leverage has a positive affects profitability, while Bintara (2020); Nugraha et al. (2020) found that leverage has a positive effect on profitability. Therefore, the hypothesis in this study is: H_2: Leverage has a positive effect on profitability.

Firm size is often measured by total assets or revenue, reflecting capacity and operational scale. Larger companies generally have more resources, better market access, and the ability to use economies of scale. These advantages allow for reduced unit costs and increase operational efficiency, contributing to enhanced profitability. Furthermore, large companies typically have more substantial bargaining power with suppliers and customers, which can result in higher profit margins and a reinforced market position. Additionally, company size is often seen as an indicator of financial strength and stability. From the perspective of signaling theory, a large size serves as a positive signal to investors and stakeholders, as it reflects quality and promising profitability potential. Larger companies usually have better access to various resources, such as funding, technology, and skilled labor, all of which support operational efficiency and facilitate higher profitability (Brigham and Houston 2020). Research by Hirdinis (2019); Natsir and Yusbardini (2020); Atiningsih and Izzaty (2021) found that company size has a positive effect on profitability. Therefore, the hypothesis in this study is: H_3: Firm size has a positive effect on profitability.

Liquidity refers to a company's ability to meet its short-term obligations and is often viewed as a positive signal regarding the company's financial stability in the eyes of investors. According to signaling theory, companies with good liquidity levels send signals indicating they have a solid financial capacity to handle their obligations, enhancing the market perception of the company's value. Adequate liquidity enables companies to maintain operational flexibility and avoid the risk of financial distress, ultimately increasing the company's attractiveness to investors (Brigham and Houston 2020). Research by Kahfi, Pratomo, and Aminah (2018); Hapsoro and Falih (2020); Darmawan et al. (2020); Jihadi et al. (2021) found that liquidity has a positive effect on firm value. Companies with high liquidity are perceived as more stable and attractive to investors, increasing their market value. Therefore, the hypothesis in this study is: H_4: Liquidity has a positive effect on firm value.

Leverage refers to a company's use of debt within its capital structure, which can signal management's confidence in its ability to generate sufficient profits to meet its debt obligations. According to signaling theory, an optimal level of leverage is considered a positive signal for investors, indicating that the company is willing to take on debt because it expects its future performance to cover the cost of that debt. Leverage can enhance company value because debt is often a cheaper financing source than equity, and the interest on debt can also provide tax benefits (Brigham and Houston 2020). Several studies, including those by Jihadi et al. (2021); Wahid, Ambarwati, and Satmoko (2022); Lestari (2023); Panjaitan and Supriyati (2023); Zulfa, Azam, and Bandono (2024) found that leverage has a positive effect on firm value. Optimal leverage can increase firm value through financing efficiency and the tax benefits obtained. Therefore, the hypothesis in this study is: H_5: Leverage has a positive effect on firm value.

Firm size is often associated with company value, where larger companies are viewed as more stable and capable of facing higher business risks than smaller companies. Based on signaling theory, company size can serve as a positive signal to investors, indicating that the company has financial resilience and adequate resources to support long-term growth. Larger companies typically have better access to financing and business networks, enabling them to achieve more significant economies of scale and improved operational efficiency, thus enhancing their competitiveness and value in the eyes of investors (Brigham and Houston 2020). Several studies have been conducted, including those by Hapsoro and Falih (2020); Natsir and Yusbardini (2020); Atiningsih and Izzaty (2021); Nurwulandari, Wibowo, and Hasanudin (2021); Lestari (2023); Zulfa, Azam, and Bandono (2024), which found that firm size has a positive effect on firm value. A larger company size can strengthen investors' perception of the company's strength and sustainability, ultimately increasing the market value of the company. Therefore, the hypothesis in this study is: H_6: Firm size has a positive effect on firm value.

Profitability is a key factor that reflects a company's financial performance and is often used as an indicator of the company's ability to generate profits. Based on Signaling Theory, high profitability is considered a positive signal for investors as it reflects management efficiency and good growth prospects, ultimately enhancing the attractiveness and value of the company. Consistent profitability allows a company to strengthen its financial position, support expansion, and enhance flexibility in the face of market uncertainties, all of which contribute to increased company value (Brigham and Houston 2020). Several previous studies have been conducted by Sucuahi and Cambarihan (2016); Tui et al. (2017); Rosikah et al. (2018); Zuhroh (2019); Dwiastuti and Dillak (2019); Darmawan et al. (2020); Natsir and Yusbardini (2020); Sari and Sedana (2020); Sugosha and Artini (2020); Atiningsih and Izzaty (2021); Jihadi et al. (2021); Putri and Wiksuana (2021); Suhendry, Toni, and Simorangkir (2021); Yondrichs et al. (2021); Handayani, Indarto, and Santoso (2022); Budiarti, Moeldjadi, and

Wijayanti (2023); Buti and Wiyarni (2023); Faradila and Effendi (2023); Lestari (2023), which found that profitability has a positive effects on firm value. High profitability is considered to strengthen investor confidence in the company's long-term potential, thereby increasing the company's market value. Therefore, the hypothesis in this study is: H_7: Profitability has a positive effect on firm value.

Profitability is considered capable of mediating the effect of liquidity on firm value because companies with high liquidity have greater financial flexibility to fund operations and investments that support achieving higher profits. Based on signaling theory, companies that can maintain high liquidity signal financial stability to investors, enhancing positive perceptions of the company's profitability potential. Good liquidity can help companies maintain operational smoothness and capitalize on growth opportunities, ultimately enhancing profitability (Brigham and Houston 2020). Research by Putro and Risman (2021) found that profitability can mediate the effect of liquidity on firm value. Good liquidity supports higher profitability, which ultimately increases the company's market value in the eyes of investors. Therefore, the hypothesis in this study is: H_8: Profitability can mediate the effect of liquidity on firm value.

Profitability is seen as capable of mediating the effect of leverage on company value because well-managed leverage can enhance a company's opportunities to generate higher profits, subsequently contributing to an increase in company value. Based on signaling theory, the appropriate use of leverage demonstrates management's confidence in the company's prospects, sending a positive signal to investors that the company can manage debt risk while generating stable profitability. Leverage can be an effective tool for increasing profits, provided the company can manage debt costs and take advantage of the tax benefits derived from interest payments (Brigham and Houston 2020). Research by Suhendry, Toni, and Simorangkir (2021) found that profitability can mediate the relationship between leverage and firm value. Proper leverage can enhance profitability, ultimately strengthening the firm value in the eyes of investors. Therefore, the hypothesis in this study is: H_9: Profitability can mediate the effect of leverage on firm value.

Profitability is believed to be capable of mediating the effect of firm size on firm value, where larger company size often indicates the capacity to generate higher profits, which in turn enhances firm value. Based on Signaling Theory, larger companies can provide positive signals to investors regarding stability and growth potential, indicating that they possess competitive advantages and sufficient resources to achieve sustainable profitability. Larger companies are typically associated with higher operational efficiency and better access to funding sources, which can improve profitability (Brigham and Houston 2020). Subsequent research by Natsir and Yusbardini (2020); Atiningsih and Izzaty (2021) found that profitability can mediate the effect of firm size on firm value. A larger firm size increases profitability, ultimately enhancing the company's value in the eyes of investors. Therefore, the hypothesis in this study is: H_{10}: Profitability can mediate the effect of firm size on firm value.

Based on the theoretical basis of previous studies' results and the problems raised as a basis for formulating a hypothesis, the following framework is presented in the research model in Figure 1.

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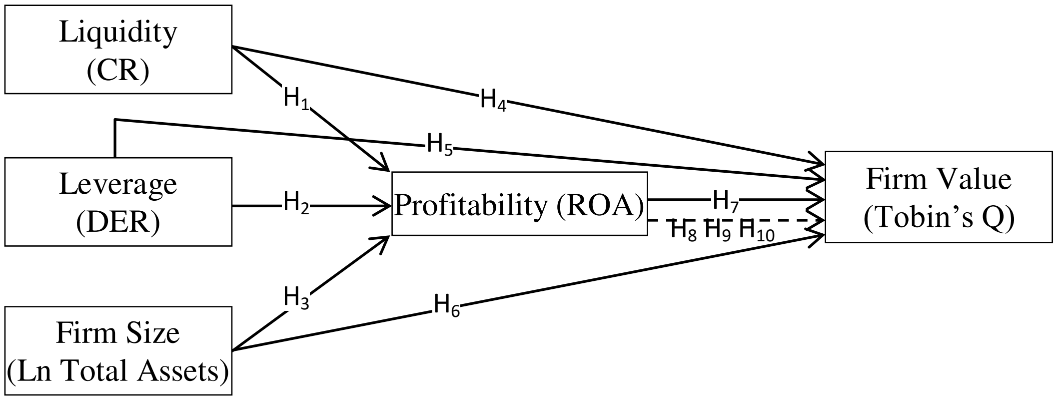

Figure 1 Research Model

METHOD

This study uses a quantitative method, with secondary data in financial reports obtained from the Indonesia Stock Exchange (IDX) website and the sample company websites. The population comprises 71 companies listed in the LQ45 index for 2018-2022. The sampling technique used was purposive sampling with company criteria, as shown in Table 1.

Table 1 Sample Selection Criteria

No.	Criteria	Quantity
1	Companies listed in the LQ45 Index for the period of 2018-2022	71
2	Companies that are continuously listed in the LQ45 Index for the period of 2018-2022	(48)
3	Companies that are part of the banking sector	(5)
4	Total sample of companies	18
5	Total observation periods	5
6	Total research sample: 18 company × 5 years	90

The study employs panel data analysis using EViews 13 software. This technique is appropriate as the data encompasses multiple companies (cross-sections) over several years (time series). Panel data analysis controls unobserved variables, providing more efficient and unbiased estimates compared to separate cross-sectional or time series analyses. Data analysis includes multiple companies (cross-sections) over a defined period (time series), resulting in more efficient estimates than those from separate cross-sectional or time series analyses. Before conducting regression tests, model selection is carried out using the Chow test (to choose between the fixed effect model (FEM) or common effect model (CEM)), the Hausman Test (FEM or random effect model (REM)), and the Lagrange Multiplier Test (REM or CEM).

In this study, firm value is the dependent variable, measured by Tobin's Q (the ratio of market value to book value of assets). Profitability is the mediating variable measured by return on assets (ROA), which reflects the ability to generate profit. The independent variables include liquidity, measured by the current ratio (CR), indicating the ability to meet short-term obligations; leverage, measured by the debt-to-equity ratio (DER), which shows the use of debt to finance assets; and firm size, measured by the natural logarithm of total assets. Operational variables can be seen in Table 2.

Table 2 Operational Variables

Variables	Measurements	Scale
Liquidity	$\text{CR} = \frac{\text{Current Assets}}{\text{Current Debt}}$ (Adiputra and Hermawan 2020)	Ratio
Leverage	$\text{DER} = \frac{\text{Total Debt}}{\text{Total Equity}}$ (Bintara 2020)	Ratio
Firm Size	$\text{SIZE} = \text{Ln (Total Asset)}$ (Adiputra and Hermawan 2020)	Ratio
Profitability	$\text{ROA} = \frac{\text{Earning After Tax}}{\text{Total Asset}}$ (Bintara 2020)	Ratio
Firm Value	$\text{TOB\_Q} = \frac{\text{MVE} + \text{Debt}}{\text{TA}}$ (Adiputra and Hermawan 2020)	Ratio

RESULTS AND DISCUSSIONS

Descriptive Statistics

Based on purposive sampling, 18 companies meet the criteria of this study, covering a total research period of 5 years, resulting in 90 observations. Table 3 is the result of descriptive statistics for the research sample.

Table 3 Descriptive Statistics Results

	CR	DER	SIZE	ROA	TOB_Q
Mean	2.069762	0.995962	31.74953	0.098193	2.370528
Median	1.793200	0.716950	31.73615	0.069050	1.328050
Maximum	5.654800	3.582700	33.65520	0.466600	18.35510
Minimum	0.335600	0.126200	30.42460	-0.057200	0.531200
Std. Dev.	1.222886	0.865086	0.858551	0.091028	3.136242
Observations	90	90	90	90	90

Source: secondary data (processed, 2024)

Based on Table 3, the minimum value for liquidity (CR) is 0.335600, observed in the company EXCL in 2019. The maximum value is 5.654800, recorded by the company INCO in 2022. The mean value is 2.069762, with a standard deviation of 1.222886. The minimum value for leverage (DER) is 0.126200, as shown by the company MNCN in 2022, while the maximum value is 3.582700, as indicated by the company UNVR in 2022. The mean value for this variable is 0.995962, with a standard deviation of 0.865086. The minimum value for firm size (SIZE) is 30.42460, observed in the company MNCN in 2018. The maximum value is 33.65520, recorded by the company ASII in 2022. The mean value for this variable is 31.74953, with a standard deviation of 0.858551. The minimum value for profitability (ROA) is –0.057200, as shown by the company EXCL in 2018. The maximum value is 0.466600, indicated by the company UNVR in 2018. The mean value for this variable is 0.098193, with a standard deviation of 0.091028. The minimum value for firm value (TOB_Q) is 0.531200, observed in the company ANTM in 2021, while the maximum value is 18.35510, recorded by the company UNVR in 2018. The mean value for this variable is 2.370528, with a standard deviation of 3.136242.

Normality Test

Normality testing consists of two structures. The first structure is the influence of liquidity, leverage, and firm size on profitability. The second structure is the influence of liquidity, leverage, firm size, and profitability on firm value. Based on the results of the first structure, the normality probability value is 0.093805> 0.05, meaning that the first structure has normally distributed data. Based on the results of the second structure, the normality probability value is 0.178293> 0.05, meaning that the second structure has normally distributed data.

Model Selection Analysis

The selection of the model in the first structure, namely the influence of liquidity, leverage, and firm size on profitability, uses several tests. Based on the Chow test results, the Cross-section F value is 0.0000 < 0.05, indicating that the chosen model is the fixed effect model (FEM). The Hausman test results show that the Cross-section random value is 0.0005 < 0.05, confirming that the fixed effect model (FEM) is preferred. The Lagrange Multiplier test, Breusch-Pagan, also yields a value of 0.0000 < 0.05, leading to the choice of the random effect model (REM). Therefore, it can be concluded that the best model for this study is the fixed effect model (FEM).

The selection of the model in the second structure, namely the influence of liquidity, leverage, firm size, and profitability on profitability, uses several tests. Like the first structure, the Chow test results indicate a Cross-section F value of 0.0000 < 0.05, leading to the selection of the fixed effect model (FEM). The Hausman test results show a Cross-section random value of 0.0000 < 0.05, confirming the fixed effect model (FEM). The Lagrange Multiplier test also yields a value of 0.0000 < 0.05, supporting the random effect model (REM). Thus, the conclusion remains that the best model for this study is the fixed effect model (FEM).

Panel Data Regression

Based on Table 4, the regression for the first structure is ROA = -1.414084 + 0.013543*CR - 0.078628*DER + 0.049215*SIZE. The regression coefficient value of the liquidity measured by the CR is 0.013543 with a probability value of 0.2171 > 0.05, meaning the liquidity has no effect on profitability, so H_1 is rejected. The regression coefficient value of leverage measured by the DER is -0.078628 with a probability value of 0.0001 < 0.05, meaning leverage has a negative effect on profitability, so H_2 is rejected. The regression coefficient value

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of firm size followed by SIZE is 0.049215 with a probability value of 0.0301 < 0.05, meaning firm size has a positive effect on profitability, so H_3 is accepted. Furthermore, the Adjusted R-squared value is 0.830046, which allows us to conclude that the influence of liquidity, leverage, and firm size on profitability accounts for 83.00%, while the remaining 17.00% is attributed to other factors.

Table 4 Regression Test Results

Variables	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.414084	0.696202	-2.031140	0.0461
CR → ROA	0.013543	0.010871	1.245752	0.2171
DER → ROA	-0.078628	0.018517	-4.246255	0.0001
SIZE → ROA	0.049215	0.022228	2.214097	0.0301
Adjusted R-Squared	0.830046			
C	31.74085	16.91184	1.876842	0.0648
CR → TOB_Q	0.328991	0.259389	1.268330	0.2090
DER → TOB_Q	-1.647843	0.490714	-3.358054	0.0013
SIZE → TOB_Q	-0.925157	0.542815	-1.704370	0.0929
ROA → TOB_Q	9.809679	2.840672	3.453295	0.0010
Adjusted R-Squared	0.920282			
CR → ROA → TOB_Q	-	0.113378	1.171868	0.2413
DER → ROA → TOB_Q	-	0.287895	-2.679160	0.0074
SIZE → ROA → TOB_Q	-	0.259019	1.863894	0.0623

Source: secondary data (processed, 2024)

Based on Table 4, the regression for the second structure is TOB_Q = 31.74085 + 0.328991*CR - 1.647843*DER - 0.925157*SIZE + 9.809679*ROA. The regression coefficient value of the liquidity measured by the CR is 0.328991 with a probability value of 0.2090 > 0.05, meaning the liquidity does not affect firm value, so H_4 is rejected. The regression coefficient value of leverage measured by the DER is -1.647843 with a probability value of 0.0013 < 0.05, meaning leverage has a negative effect on firm value, so H_5 is rejected. The regression coefficient value of company size followed by SIZE is -0.925157 with a probability value of 0.0929 > 0.05, meaning firm size does not affect firm value, so H_6 is rejected. The regression coefficient value of profitability measured by the ROA is 9.809679 with a probability value of 0.0010 < 0.05, meaning profitability has a positive effect on firm value, so H_7 is accepted. Furthermore, the Adjusted R-squared value is 0.920282, indicating that the influence of liquidity, leverage, firm size, and profitability on firm value accounts for 92.03%, with the remaining 7.97% influenced by other factors.

The results of the Sobel test (Table 4) show that CR → ROA→ TOB_Q has a probability of 0.2413 > 0.05, meaning profitability cannot mediate the liquidity effect on firm value, so H_8 is rejected. DER → ROA → TOB_Q has a probability of 0.0074 < 0.05, meaning profitability can mediate the effect of leverage on firm value, so H_9 is accepted. SIZE → ROA → TOB_Q has a probability of 0.0623 > 0.05, meaning profitability cannot mediate the effect of firm size on firm value, so H_{10} is rejected.

The Effect of Liquidity on Profitability

This study found that liquidity, as measured by the Current Ratio (CR), does not affect profitability in LQ 45 index companies. According to signaling theory, high liquidity can provide a positive signal to investors regarding the company's financial stability. However, its impact on profitability is limited if it is not used productively. Brigham and Houston (2020) support this view by stating that high liquidity is often maintained for safety purposes. However, if the funds are only stored or allocated for less productive activities, its effect on profitability remains minimal. This finding suggests that although LQ45 companies generally have good financial performance and high liquidity, their ability to meet short-term obligations does not always directly impact increasing profits. This is due to the less-than-optimal efficiency of using current assets, such as inventory and receivables, which may not be allocated productively to support revenue-generating activities. In addition, the profitability of LQ45 companies is more likely to be influenced by other factors, such as operational strategy, cost structure, leverage, or dividend policy, which are more dominant in influencing financial results. These finding underlines that while high liquidity is important for maintaining financial stability, companies need to ensure that liquid assets are managed efficiently and directed towards investments or operational activities that can increase profitability. This finding is consistent with previous studies by Krismunita and Imronudin (2021); Handayani, Indarto, and Santoso (2022), which found that liquidity did not affect profitability. Thus, this finding reinforces the idea that liquidity, as measured by CR, only provides limited benefits to profitability if not accompanied by an effective asset utilization strategy.

The Effect of Leverage on Profitability

This study found that leverage, as measured by the debt-to-equity ratio (DER), has a negative effect on profitability, as measured by return on assets (ROA), in companies listed in the LQ45 index on the Indonesia Stock Exchange. Based on signal theory, optimal leverage can send a positive signal to investors, indicating that the company is confident in managing debt to maximize profitability. Well-managed leverage can provide tax benefits by reducing taxable income through interest expenses; however, excessive debt use increases the risk of bankruptcy (Brigham and Houston 2020). In practice, companies in the LQ45 index often utilize debt to enhance operations and expand their markets, particularly when investment opportunities are abundant but internal resources are limited. These findings indicate that higher reliance on debt financing among these leading companies tends to reduce their ability to generate profits from their assets. A high DER typically leads to increased interest expenses and fixed financial obligations, ultimately eroding the company's net profit. Moreover, a high DER reflects greater financial risk, which can limit a company's operational flexibility in seizing strategic opportunities. The negative impact on profitability may also result from inefficient allocation of debt funds, where investments fail to generate returns higher than the cost of borrowing. These results underscore the importance of prudent debt management for LQ45 companies, which are recognized for their superior financial and operational performance. While debt can be a tool for driving growth, excessive reliance without careful planning can harm profitability. Therefore, maintaining an optimal balance between debt and equity in the capital structure is crucial to sustaining profitability while managing financial risks effectively. The results align with studies by Bintara (2020); Nugraha et al. (2020), which found that leverage has a negative effect on profitability.

The Effect of Firm Size on Profitability

This study found that firm size, measured using the natural logarithm of total assets (Ln Total Assets), has a positive effect on profitability, as measured by return on assets (ROA), in companies listed in the LQ45 index on the Indonesia Stock Exchange. Based on signal theory, a larger company sends a positive signal to investors about stability and growth potential, which enhances confidence in the company's ability to generate profits. Larger companies typically have better access to resources, such as funding, technology, and skilled labor, which supports operational efficiency and profitability (Brigham and Houston 2020). These findings suggest that large companies in the LQ45 index generally have substantial assets and can leverage economies of scale and competitive advantages to improve operational efficiency and generate higher profits. As leading companies with strong reputations, LQ45-listed firms usually have easier access to capital markets, allowing them to obtain financing at relatively lower costs. Furthermore, these large companies have more excellent capabilities in product diversification, market penetration, and risk management, all of which contribute to improved profitability. The large size of these companies also gives them strong bargaining power with suppliers and customers, creating opportunities to enhance profit margins. However, these findings also emphasize the importance of effective asset management, even for large companies listed in LQ45. Large assets will not provide maximum benefits if they are not utilized efficiently to support value-generating activities. Therefore, companies must continuously improve their asset management strategies to ensure a positive contribution to profitability. These results indicate that company size is one of the key factors that can support profitability, especially in a competitive business environment like the LQ45 index. Large companies that successfully leverage economies of scale and competitive advantages tend to have better financial performance than smaller ones. This finding is consistent with previous research conducted by Hirdinis (2019); Natsir and Yusbardini (2020); Atiningsih and Izzaty (2021), which found that firm size influences profitability, as larger companies can optimize their assets for productive activities and achieve higher profits.

The Effect of Liquidity on Firm Value

This study shows that liquidity, measured using the Current Ratio (CR), does not affect firm value, measured by Tobin's Q, for companies listed on the LQ45 index on the Indonesia Stock Exchange. According to signal theory, high liquidity should indicate financial stability, but if current assets are not productively invested in ventures with high returns, their impact on firm value remains limited. Brigham and Houston (2020) also emphasize that excessive liquidity may signal inefficient use of assets, as liquid assets not allocated to productive investments do not directly contribute to increasing firm value. In practice, many companies in the LQ45 index maintain high liquidity as a reserve against economic uncertainty but tend not to use it for long-term value growth.

These findings indicate that a company's ability to meet its short-term obligations is not a primary factor influencing the market's perception of firm value among these prominent companies. Excessive liquidity in large companies, such as those listed in LQ45, may reflect inefficient cash management. Investors view this as indicating that available funds are not utilized for productive investment opportunities, such as business expansion, product innovation, or diversification strategies. Consequently, the market prioritizes other factors, such as profitability, growth prospects, and operational efficiency, when assessing firm value.

Companies in the LQ45 index generally have easy access to low-cost external financing due to their reputation and credibility. Therefore, liquidity in high current assets may be less relevant than long-term investment and growth strategies. Furthermore, the capital market tends to value companies that enhance operational efficiency and allocate resources optimally rather than those that maintain high liquidity. These results also reflect that the Indonesian capital market, particularly in the LQ45 context, is more influenced by strategic indicators such as return on investment, earnings stability, and innovation rather than merely the company’s ability to meet short-term obligations. Thus, while liquidity remains essential for maintaining operational stability, LQ45 companies must focus on strategies that enhance added value and attract investor interest. However, companies must maintain a balance of sufficient liquidity to ensure operational stability and support the implementation of growth strategies that can increase firm value in the eyes of investors. These findings are consistent with Putri and Wiksuana (2021); Adiputra and Hermawan (2020); Nurwulandari, Wibowo, and Hasanudin (2021); Putro and Risman (2021); Suhendry, Toni, and Simorangkir (2021); Yondrichs et al. (2021); Wahid, Ambarwati, and Satmoko (2022); Handayani, Indarto, and Santoso (2022); Budiarti, Moeldjadi, and Wijayanti (2023); Panjaitan and Supriyati (2023); Ripaluddin, Pasulu, and Taufiq (2023); Zulfa, Azam, and Bandono (2024), who found that liquidity did not affects firm value.

The Effect of Leverage on Firm Value

This study found that leverage, as measured by the debt-to-equity Ratio (DER), has a negative effect on firm value as measured by Tobin's Q in companies listed in the LQ45 index on the Indonesia Stock Exchange. According to signal theory, appropriate leverage sends a positive signal to investors that the company can manage debt to improve performance and value. Brigham and Houston (2020) noted that leverage can offer tax benefits through interest deductions; however, excessive debt increases the risk of bankruptcy, potentially reducing the perception of the company's value. In practice, LQ45 index companies often use leverage to strengthen capital and expand the market, thereby increase ng their attractiveness to investors. This negative relationship suggests that leading companies in the LQ45 with high leverage levels tend to experience a decline in the company's value perceived by the market. In the context of LQ45 companies, which generally have a good reputation and easier access to external financing, high leverage can raise concerns among investors regarding financial risk. Heavy reliance on debt financing can increase interest expenses, reducing net income available to shareholders. This can also exacerbate liquidity risk, especially in uncertain economic conditions.

Furthermore, high DER in LQ45 companies can indicate a lack of efficiency in capital structure management. Although these companies usually can attract investment due to their reputation and credibility, excessive use of debt can reduce their financial flexibility in allocating funds to strategic growth opportunities, such as business expansion, diversification, or product innovation. From a market perspective, investors tend to focus more on other performance indicators, such as profitability, operational efficiency, and growth stability, than high leverage levels. Excessive leverage can also create the perception that the company is riskier and less oriented towards long-term growth, which ultimately reduces the company's market value, as reflected in Tobin's Q. The results of this study imply that companies in the LQ45 index need to maintain a balance between the use of debt and equity in their capital structure. Focusing on operational efficiency, financial stability, and sustainable growth strategies is more likely to attract investors and increase the company's value in the eyes of the market. The results of this study are in line with the results of studies conducted by Fosu et al. (2016); Kahfi, Pratomo, and Aminah (2018); Simorangkir (2019); Ripaluddin, Pasulu, and Taufiq (2023), which found that leverage has a negative effect on firm value.

The Effect of Firm Size on Firm Value

The research findings indicate that firm size, measured by Ln total assets, does not affect firm value, measured by Tobin's Q. This means that the total assets owned by a company do not significantly impact the perceived market value of the firm. In the context of signaling theory, large companies with greater resources and stability do not necessarily send positive signals to investors, especially if they face managerial challenges or operational inefficiencies. In a competitive business environment, firm size alone is not a determining factor of value (Brigham and Houston 2020). Firm size is often seen as an indicator of operational strength and financial stability. Companies with substantial assets generally possess a higher capacity to operate on a larger scale, diversify revenue streams, and mitigate external risks. However, in this case, the findings suggest that merely owning significant assets is insufficient to negatively or positively impact firm value.

The market tends to evaluate more than just the size of assets, focusing instead on how effectively a company manages and utilizes those assets to generate revenue, profit, and returns on investment. If a company fails to optimize asset utilization, having a larger size does not necessarily provide a competitive advantage. Conversely, the market is likely to prioritize operational efficiency, asset productivity, and the long-term investment strategies implemented by the company. In large companies like those listed in the LQ45 index, firm size may not be the primary factor influencing value. These companies typically have other advantages, such as easy access to financing, strong reputations, and opportunities to achieve economies of scale. Therefore, the market is more inclined to assess performance based on other indicators, such as profitability, innovation, revenue growth, or business diversification, rather than merely the size of the company's assets. These results align with Adiputra and Hermawan (2020), Yulandri, Hertina, and Asih (2023), which found that firm size does not affect firm value.

The Effect of Profitability on Firm Value

The research findings indicate that profitability, measured using return on assets (ROA), has a positive effect on firm value, as measured by Tobin's Q. This implies that the higher a company's ability to generate profits from its total assets, the higher the firm's value perceived by the market. High profitability reflects a company's efficiency in utilizing its income-generating assets. In financial theory, strong profitability sends a positive signal to investors about the company's financial health and capacity to deliver sustainable returns. This aligns with signaling theory, which posits that good financial performance builds investor confidence and enhances the company's attractiveness in capital markets. Brigham and Houston (2020) noted that in a competitive business environment, investors tend to focus on financial performance as an indicator of growth potential, where strong profitability fosters trust in the company's capacity for expansion. A high ROA also demonstrates effective asset management and significant net profit generation. Consequently, companies with high ROA are considered more appealing as they signify operational efficiency and the potential to provide substantial returns to shareholders. In the context of companies listed in the LQ45 index, the positive effect of profitability on firm value becomes even more relevant. These firms typically have better access to resources and more significant business opportunities, making their profits more impactful on their market value. A high Tobin's Q value in such companies reflects a market appreciation for their efficiency and profitability performance. These findings are consistent with previous studies conducted by Sucuahi and Cambarihan (2016); Tui et al. (2017); Rosikah et al. (2018); Zuhroh (2019); Dwiastuti and Dillak (2019); Sari and Sedana (2020); Darmawan et al. (2020); Natsir and Yusbardini (2020); Sugosha and Artini (2020); Jihadi et al. (2021); Putri and Wiksuana (2021); Yondrichs et al. (2021); Suhendry, Toni, and Simorangkir (2021); Atiningsih and Izzaty (2021); Handayani, Indarto, and Santoso (2022); Budiarti, Moeldjadi, and Wijayanti (2023); Buti and Wiyarni (2023); Faradila and Effendi (2023); Lestari (2023), which also found that profitability positively influences firm value.

Profitability as a Mediator of the Effect of Liquidity on Firm Value

This study reveals that profitability, measured using return on assets (ROA), cannot mediate the effect of liquidity, measured by the Current Ratio (CR), on firm value, measured by Tobin's Q. This indicates that while liquidity is an important factor, profitability does not always function as a linking element that strengthens the relationship. In signaling theory, good liquidity can positively signal a company's financial health. However, if profitability is low, investors may remain skeptical about the company's long-term growth prospects, hindering an increase in firm value. Brigham and Houston (2020) state that companies with high liquidity but low profitability are often perceived as high-risk, reducing their attractiveness to investors. These findings suggest that although liquidity reflects a company's ability to meet its short-term obligations, it does not significantly influence firm value through the profitability pathway. From a liquidity perspective, the CR is often used to assess a company's ability to maintain short-term financial stability. However, a high liquidity ratio does not necessarily indicate efficient utilization of assets or working capital to generate profits. If a company merely maintains liquidity without utilizing excess current assets to support operational or investment activities, its impact on profitability—and consequently on firm value—becomes limited.

Profitability, represented by ROA, typically reflects a company's efficiency in managing assets to generate profits. However, this study reveals that ROA cannot strengthen the relationship between CR and Tobin's Q. High liquidity does not always generate sufficient profits to influence market perceptions of firm value. In other words, the market does not focus solely on liquidity and profitability but also considers other variables, such as growth, innovation, or investment strategies. This study, conducted on companies listed in the LQ45 index, further validates these findings. Companies within the LQ45 index typically have greater access to resources and business opportunities, making their liquidity more stable. However, in a competitive environment, the market evaluates companies based on other indicators, such as operational efficiency, innovation, or long-term growth strategies, rather than solely focusing on the relationship between liquidity and profitability. These findings align with studies by Handayani, Indarto, and Santoso (2022); Ripaluddin, Pasulu, and Taufiq (2023), which found that profitability cannot mediate the effect of liquidity on firm value.

Profitability as a Mediator of the Effect of Leverage on Firm Value

The research findings indicate that profitability, as measured by return on assets (ROA), can mediate the relationship between leverage, measured by the debt-to-equity ratio (DER), and firm value, measured by Tobin's Q. In other words, the influence of leverage on firm value is not solely direct but also involves profitability as a connecting pathway. High leverage, as reflected by a high DER, indicates that a company significantly utilizes debt in its capital structure. This can provide strategic advantages if the debt is allocated to productive investments, leading to higher profits. However, high leverage also entails substantial financial risks, such as the potential for default, which may diminish investor confidence. In this context, profitability is a key indicator of the company's efficiency in utilizing its assets to generate profits while managing the risks associated with debt usage. When a company optimally uses debt to boost productivity and generate substantial net income, it reflects sound financial management. High ROA signals the market that the company effectively manages its assets, even under significant debt obligations. This, in turn, enhances investor confidence in the company's ability to sustain growth, thereby increasing firm value, as evidenced by an improvement in Tobin's Q.

Under the framework of signaling theory, companies with strong profitability send positive signals to investors, demonstrating their ability to manage not only leverage-related risks but also deliver significant returns. High profitability creates a perception that the company has solid fundamentals, intense competitiveness, and promising long-term growth prospects, thereby boosting its value in the eyes of the market. Brigham and Houston (2020) emphasize that leverage can enhance shareholder returns as long as companies can generate sufficient profits to cover debt costs. This study underscores the importance of proper leverage management, with profitability as a critical success factor. Leverage utilized without sufficient profitability may only amplify risks.

However, when accompanied by improved operational efficiency, as reflected by a higher ROA, its impact on firm value becomes more significant. Thus, companies that successfully manage this relationship are more likely to attract investor interest and enhance their competitiveness in the market. These findings align with Suhendry, Toni, and Simorangkir (2021) research, which also found that profitability can mediate the relationship between leverage and firm value. Profitability plays a vital role in bridging the gap between leverage and firm value, as companies that efficiently manage debt and generate profits tend to have higher perceived value among investors. This demonstrates that profitability reflects a company's financial health and enhances investors' perceptions of the risks and potential returns associated with using debt.

Profitability as a Mediator of the Effect of Firm Size on Firm Value

The study conducted on companies listed in the LQ45 index reveals that profitability, measured using return on assets (ROA), cannot mediate the effect of firm size, measured by Ln Total Assets, on firm value, measured by Tobin's Q. This finding indicates that, although companies in the LQ45 index generally possess substantial assets, the profitability generated from these assets is not sufficiently significant to strengthen the relationship between firm size and firm value. Companies within the LQ45 index are known for their large market capitalization and extensive access to capital markets. However, the results show that possessing significant assets alone cannot enhance firm value through profitability. One possible explanation is that these sizable assets are not yet optimally managed to generate profits. High operational costs, long-term investments that have not yielded results, or reliance on specific markets could hinder asset utilization efficiency. Moreover, investors focusing on LQ45 companies tend to consider factors beyond firm size and profitability. Indicators such as innovation, sustainability, long-term growth strategies, and global competitiveness are often prioritized. Thus, having substantial assets without accompanying operational efficiency and effective profit management might not significantly impact investors' perception of firm value.

Under the signaling theory, large firms often signal stability and business continuity to investors; however, firm size alone does not guarantee high profitability. High profitability can positively signal a company's financial efficiency and sustainability. Brigham and Houston (2020) explain that, in practice, large companies with extensive assets may not always efficiently manage their resources, leading to lower profitability. In this case, if ROA is not sufficiently high, investors remain skeptical about the company's ability to utilize its assets optimally. This highlights the need for LQ45 companies to focus on asset accumulation and efficient management to generate significant profits. The findings of this study carry important implications for companies in the LQ45 index. These companies need to improve the efficiency of managing their large assets to boost net profits. Additionally, they must develop long-term strategies involving innovation, business diversification, and better cost management. Through such efforts, these companies can send positive signals to investors about their financial fundamentals while enhancing firm value. This research aligns with the findings of Hirdinis (2019), which showed that profitability cannot mediate the relationship between firm size and firm value.

CONCLUSIONS

The findings indicate that liquidity does not affect profitability, leverage has a negative effect on profitability, and firm size has a positive effect on profitability. Furthermore, liquidity does not affect firm value, leverage negatively affects firm value, firm size does not affect firm value, and profitability positively affects firm value. Additionally, profitability cannot mediate the effects of liquidity and firm size on firm value but can mediate the effect of leverage on firm value. This research provides valuable insights into the relationships among these variables in the Indonesian capital market, particularly for companies in the LQ45 index. Within the framework of signaling theory, the study highlights that signals from liquidity and firm size are only effective if supported by significant profitability. The findings underscore the importance of prudent leverage management, asset optimization, and long-term growth strategies such as innovation and diversification to enhance a firm's competitiveness. The study emphasizes that large assets or high liquidity alone cannot enhance firm value without optimal management and well-directed business strategies.

This study has limited data from non-bank companies in the LQ45 index for the 2018–2022 period so that it can limit the generalization of findings to all companies listed on the Indonesia Stock Exchange (IDX) or those in other sectors. Then, this study only considers important variables such as liquidity, leverage, company size, and profitability. To extend the usefulness of these findings, further research is suggested to include companies outside the LQ45 index, additional variables such as innovation, risk management, or corporate governance quality, and utilize more complex methodologies such as structural equality modelling (SEM). These approaches can provide deeper insights into the financial dynamics of the Indonesian capital market.

Companies are advised to prioritize efficiency in leverage management to ensure debt is productively utilized in profit-generating activities, as high leverage without a solid strategy can diminish firm value. Financial transparency and corporate governance are also essential for building investor confidence, particularly among institutional investors who are more sensitive to risk. For investors, it is important to prioritize profitability as a key indicator when evaluating companies with high leverage, as it reflects the firm’s ability to manage financial risks and generate returns. Diversifying portfolios across various sectors and firm sizes is also recommended to mitigate risks and enable more informed investment decisions.

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