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The Effect of Liquidity, Profitability and Capital Structure on Firm Value with Firm Size as a Moderating Variable

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Abstract

This study aims to examine the effect of liquidity, Profitability, and capital structure on firm value moderated by firm size in financial sector companies listed on the Indonesia Stock Exchange. Liquidity is measured using the current ratio; Profitability is measured using the return on assets, capital structure is measured using debt the to-equity ratio, company size is measured using natural logarithm, and company value is measured using the price-to-book value obtained from financial statements or annual reports of companies on the Indonesia Stock Exchange. The research method used is a quantitative approach. The population in this study is a financial sector company listed on the Indonesia Stock Exchange and the sampling uses purposive sampling which results in a data sample of 57 company samples with a period of 4 years so that the data sample is 228 samples. This study uses secondary data sources collected by the documentation study technique in the form of financial reports and company annual reports through the official website of the Indonesia Stock Exchange, namely www.idx,co.id and the website of each company. The data analysis in this study used panel data regression analysis and MRA with the Eviews version 11 test tool. So, it can produce conclusions that there is an effect of liquidity, Profitability, and capital structure on firm value that has a positive and significant effect, and the existence of company size strengthens the effect of liquidity, Profitability, and capital structure on firm value.

Keywords: Liquidity, Profitability, Capital Structure, Firm Value, Moderating Variable.

INTRODUCTION

In Indonesia, the capital market is known as an attractive investment alternative for investors. Various companies can be invested in by investors through the purchase of new securities offered or traded in the capital market. In addition, the financial sector is complemented by the capital market, banks, and financing institutions. The relationship between the owners of capital, who are investors, and those who need funds, called issuers or companies that go public, is bridged by the capital market. The development of the capital market industry in Indonesia is carried out by PT Bursa Efek Indonesia, which actively provides education and directs the industry in a better direction (Lano et al., 2023).

The capital market is a place where issuers and investors transact with securities, as well as underwriters, brokers, and investment managers (Ernitawati et al., 2020). On the Indonesia Stock Exchange, 12 company sectors are registered, one of which is the financial sector. The financial sector in Indonesia acts as a key pillar in supporting economic growth by facilitating capital flows

and investment in various sectors while maintaining market stability and encouraging innovation. Companies in this sector play a significant role in economic development and provide necessary financial support, although they face challenges such as global economic fluctuations, regulatory changes, and domestic financial crises. To continue operating efficiently and stably, these firms must be able to adapt their strategies to future challenges (Sitompul, 2024).

The Financial Services Authority (OJK) stated that Indonesia's financial services sectors, such as banking, insurance, capital markets, and pension funds, remained stable amid high global uncertainty. OJK policies played an important role in maintaining this stability through strict supervision and policy support. Banking showed positive credit growth, insurance experienced an increase in premiums, and the capital market remained dynamic. The performance of these sectors shows good adaptability amid global challenges, maintaining investor confidence and supporting the stability of the national financial system (Financial Services Authority, 2024). Based on the statement from the Financial Services Authority shows that the financial sector can record positive performance in various financial sub-sectors. This reflects the ability of the financial sector to maintain stability and increase the value of companies in the capital market.

One of the main objectives of a company is to improve the welfare of its stakeholders, including employees, communities, and customers. This reflects the company's commitment to providing benefits and added value to all parties involved in its operations (Dumitrescu & Zakriya, 2021). Companies must pay special attention to the value of the company because this value reflects how the company manages its business. Management needs to make various efforts to optimize the value of the company in order to improve investor welfare. When the company value is at an optimal condition, this will attract new investors to invest. Strong firm value is also an important indicator that reflects the opportunity for the company's operational sustainability in the future (Halawa et al., 2024).

Investors often see the value of a company through the price of shares traded in the capital market. One way to assess the intrinsic value of shares is to use the price-to-book value (PBV) ratio. When the value of the company is high, this gives a positive signal to the market, which shows confidence in the company's current performance and future prospects (Zefriyani et al., 2022). Some indicators of firm value include Earning Per Share (EPS), Price Earnings Ratio (PER), and Price to Book Value (PBV) (Hasanudin & Wijareni, 2023). In this study, researchers used an indicator of firm value proxied by Price to Book Value (PBV) because, according to (Sadiq et al., 2023), the results of their research show that the price to book value (PBV) ratio contributes positively to firm value. Companies that have a good ratio tend to have a higher market value, which indicates that management provides accurate and transparent information to shareholders. In addition, the price-to-book value (PBV) can help create favorable information asymmetry between management and shareholders. Ultimately, it can increase investor confidence and overall firm value. In addition, price-to-book value (PBV) has advantages that cannot be used with other ratios; one of the advantages is that PBV can show an intuitive and stable measure that can be compared to stock prices (Ichsani et al., 2021).

According to (Hasanudin and Wijareni, 2023), Price to Book Value (PBV) is a ratio that compares stock prices to book value, which shows how much the market values the book value of a company's shares. The price-to-book value (PBV) ratio is used by investors to assess whether a company's shares have a fair price. This ratio determines whether a company's stock is considered cheap or expensive. Usually, investors are interested in buying stocks that are considered cheap, and PBV is one of the ratios that can help them do this calculation. If the PBV value is below 1, it indicates that the stock is undervalued because its price is still below its book value. Investors can use the PBV value to compare stock prices among companies in the same industry so they can choose stocks with the best prices and maximum profit potential (Widyakto et al., 2023). The phenomenon that occurs in one of the financial sectors, namely the banking sub-sector, can be seen in the following figure:

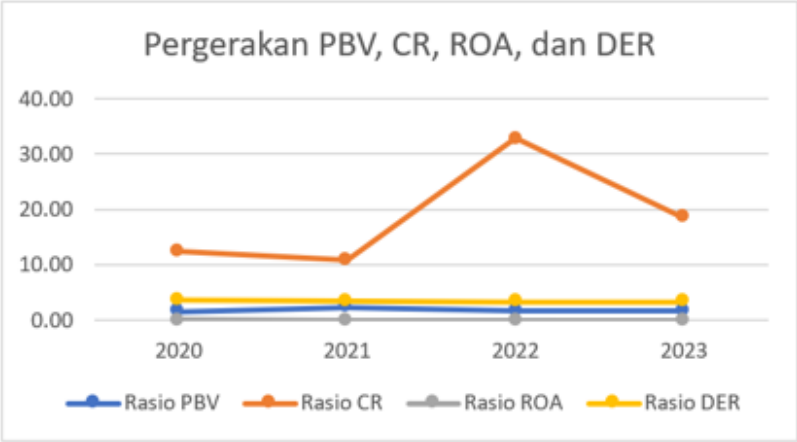

Figure 1. PBV Movement Chart, Current Ratio, Return On Assets and Debt to Equity Ratio

Table 1. Data on the average value of PBV, CR, ROA, DER, and SIZE in financial sector companies listed on the Indonesia Stock Exchange for the period 2020-2023.

Year	Ratio				
	PBV	CR	ROA	DER	SIZE
2020	1,57	12,36	0,058	3,64	30,37
2021	2,23	10,91	0,035	3,44	30,47
2022	1,73	32,89	0,036	3,31	30,77
2023	1,67	18,38	0,033	3,19	30,84
Average	1,80	18,64	0,041	3,40	30,61

Source: www.idx.co.id

Based on the figure and table 1. above, it can be seen that the price to book value PBV ratio which is used as an indicator of the calculation of company value fluctuates every year. In 2020-2021, the average company value in the financial sector increased significantly by 0.66, the average current ratio (CR) value decreased by 1.45 times, the average return on assets (ROA) value decreased by 0.023, and the average debt to equity ratio (DER) decreased by 0.2. However, in 2021-2022 the average company value in the financial sector decreased by 0.5, the average current

ratio (CR) value increased by 21.98 times, the average return on assets (ROA) increased by 0.01 and the average debt to equity ratio (DER) decreased by 0.13. In 2022-2023, the average company value also decreased by 0.06, the average current ratio (CR) value decreased significantly by 14.51, the average return on assets (ROA) decreased by 0.003, and the average debt to equity ratio (DER) decreased by 0.12.

Based on the above, it reflects that the increase in firm value is not always in line with theory. This can be seen in 2020-2021, there was a decrease in CR of 1.45 times, a decrease in ROA of 0.023 and a decrease in DER of 0.2, but the company value actually increased significantly by 0.66 and in 2021-2022 the CR value increased significantly by 21.98 times while DER decreased again by 0.13 and ROA increased by 0.01, This is not in line with the theory which states that when the current ratio (CR) is high, it will increase Profitability and company value and vice versa and high DER reflects that the company has a large proportion of debt compared to its capital, which means that the company has a high interest burden on creditors which causes a decrease in Profitability and vice versa. According to (Hertina, 2024) profitability, liquidity, company growth and capital structure are some of the factors that affect firm value. However, according to (Chen et al., 2021) company size, Profitability, dividend policy, liquidity and others are some of the factors that can affect firm value. In addition, some external factors that affect firm value such as rising interest rates, inflation and technological developments (Cahyadi & Ruslim, 2024).

Researchers will select and use four factors from the factors that affect firm value for the financial sector on the Indonesia Stock Exchange. Likuditas, Profitability, capital structure, and company size are the four factors. The four factors were chosen because they have a dominant influence as part of the company's internal factors. There are differences in the results of previous studies so that this study is interested in selecting and retesting the variables of liquidity, Profitability, capital structure and company size.

Factors that affect firm value are liquidity. The indicator of an entity's ability to meet its short-term obligations in a timely manner is called liquidity. A high ratio indicates that the entity has a good ability to meet these obligations, while a low ratio indicates that the entity may face difficulties in meeting these obligations. In general, companies with high liquidity ratios are considered to have better future prospects. This figure is usually considered by investors as an indication that the organization has the ability to manage its liquidity well, which in turn can increase Profitability in the future (Paramitha, 2020). In this study, Current Ratio will be used as an indicator of liquidity.

Current ratio can illustrate how much the ability of current assets to meet current liabilities owned by an entity. The higher the percentage of current ratio, the better the company's liquidity level. This condition will give a positive perception of the company's condition, which in turn increases the company's value in the eyes of investors (Munfaqiroh et al., 2023). Reinforced by signal theory which shows that high liquidity signals a positive signal for investors, which can increase the value of the company (Gautama et al., 2024). Based on research conducted by (Kristianti & Foeh, 2020), (Diastanova & Marsoem, 2023) states that liquidity has a positive and significant effect on

firm value. However, research conducted by (Saragih et al., 2022) and (Handayani et al., 2022) states that liquidity has no effect on firm value.

Apart from liquidity, Profitability also affects firm value. Profitability describes how effective a company is in obtaining profits from its operations, using resources such as sales, total assets, or personal capital (Rahayu et al., 2023). In addition, according to (Arisudhana & Priyanto, 2023), Profitability is a measure that describes the company's performance, measured based on how effectively the company manages and organizes resources to achieve maximum profit. One of the main objectives of the company is to create profits. Profitability is used to measure the company's ability to generate revenue or profit. Companies that have high company values can generally generate profits, and vice versa; less profitable companies will have lower company values (Budiasih et al., 2023).

Profitability can be measured using various indicators, such as net profit margin (NPM), return on assets (ROA), and return on equity (ROE) (Agustin, 2022). Profitability is one of the main indicators to assess the overall condition of a company. Signaling theory explains that Profitability affects stock prices and firm value. When a company earns higher profits, its stock price tends to rise, indicating better valuation. This increase in profit gives a positive signal to investors, thus increasing the confidence of investors to invest in the company's shares (Meliza et al., 2024). In this study, Profitability is measured using return on assets, namely profit after tax divided by total assets. Based on research conducted by (Satoto, 2024), (Mayangsari et al., 2020) (Sukendri & Aryawati, 2021) states that Profitability has a positive and significant effect on firm value. However, research conducted by (Nasution et al., 2022) (Sihombing et al., 2022) states that Profitability has no effect on firm value.

Furthermore, capital structure also plays an important role in influencing firm value. The capital structure shows the issuer's ability to fulfill its long-term obligations. If the capital structure increases, debt is more dominant than equity, which can reduce the value of the company (Govery et al., 2023). The ideal capital structure is a combination of debt and equity. To maximize firm value, the capital structure must be managed in an optimal way, so as to minimize risk and generate maximum profit. By applying considerations of the company's ability to generate Profitability, growth opportunity, asset structure, and liquidity effectively, this ideal structure can be managed (Bate'e et al., 2022). A good capital structure can reduce operational costs and optimally balance risk and capital so as to increase firm value (Satoto, 2023). In signal theory, when a company increases its debt, this can be interpreted as the company's confidence in its future. This action gives a positive signal to investors that the company has bright prospects and good growth potential in the future (Muliana & Ahmad, 2021). This is reinforced by the trade-off theory, which states that if the company's capital structure is below the optimal point, the addition of debt can increase the value of the company (Selly et al., 2024). The use of capital structure can also be a positive signal to the investors because the company is able to manage the company's debt sources. In this study, the capital structure will be measured using Debt to Equity, namely total debt divided by total equity. Based on research conducted by (Rahayu et al., 2023) (Pramesti et al., 2021) (Suzulia et al.,

2020) stated that capital structure has a positive and significant effect on firm value. However, in contrast research conducted by (Chrisshanti et al., 2024) (Nasution et al., 2022), states that capital structure has no significant effect on firm value.

Furthermore, firm size also contributes to influencing firm value. Company size reflects the amount of market capitalization, high book value, and various benefits generated by large companies. With the greater the scale of the company, the higher the potential profits obtained (Adjani & Parinduri, 2022). The size of a company is often a factor considered because it is believed to affect the value of the company. Based on their size, companies can be categorized into large, medium, or small. Generally, large companies are easier to obtain funding due to stronger capacity and resources. In addition, large companies tend to face various types of risks and therefore need to implement more complex risk management strategies. These advantages make large companies considered to have better prospects, thus attracting investors to invest their capital (Deme et al., 2022). Company size can be measured by total assets, log size, and stock market value, all of which help categorize the size of a company (Hutauruk, 2024). In this study, researchers used total assets as an indicator to measure company size and used company size as a moderating variable.

Based on the results of previous studies that have varied findings, researchers are interested in conducting research again by adding moderating variables with the title of the effect of liquidity, Profitability, and capital structure on firm value with company size as a moderating variable in financial sector companies listed on the Indonesia Stock Exchange for the period 2020-2023.

HYPOTHESIS

The provisional hypotheses used by the researcher before conducting this study are as follows:

H1: Liquidity has a positive effect on firm value.

H2: Profitability has a positive effect on firm value.

H3: Capital structure has a positive effect on firm value.

H4: Company size strengthens the effect of liquidity on firm value.

H5: Company size strengthens the effect of profitability on firm value.

H6: Company size strengthens the effect of capital structure on firm value.

RESEARCH METHOD

This research uses quantitative research methods. The population used in this study are all financial sector companies listed on the Indonesia Stock Exchange (IDX) for the period 2020-2023. Based on the data obtained, the number of companies listed in the study period amounted to 105 companies. The sample selection method in this research uses non-probability sampling techniques, 57 companies were selected from various financial sub-sectors such as banking, financing institutions, capital markets, insurance, and holding & investment companies. This study covers the period 2020-2023 so with 57 companies multiplied by three years of research, a total of 228 data samples were obtained

The secondary sources used by researchers in this study are financial reports and annual reports of financial sector companies on the Indonesia Stock Exchange which have criteria from 2020-2023. The data used in this study were obtained from the official website of the Indonesia Stock Exchange, namely www.idx.co.id regarding financial statements in the form of current ratio, return on assets, debt to equity, price book value and company size. Data collection in this study was carried out through the documentation method. In its implementation, financial reports from companies in the financial sector that match the research criteria are recorded to measure the research variables. The data collected in the form of documents published on the official website of the Indonesia Stock Exchange, namely www.idx.co.id The data analysis technique used is the classical assumption test, refression model, determination coefficient test, T test, F test.

RESULT AND DISCUSSION

Classical Assumption Test

Normality Test

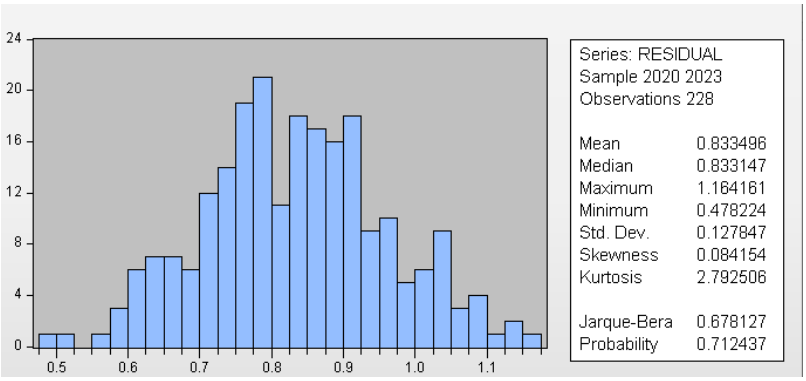

Figure 2. Normality Test Results

Source: Secondary data processing results

The residual values have been tested for normality, and the results show a Jarque-Bera value of 0.678 with a significance of 0.712. Since the significance value is more than 0.05, it can be concluded that the data in this study is normally distributed.

Multicollinearity Test

Table 2. Multicollinearity Test Results

Variables	VIF	Description
X1	1,327	Non Multicollinearity
X2	1,233	Non Multicollinearity
X3	1,130	Non Multicollinearity
Z	1,401	Non Multicollinearity
X1Z	1,356	Non Multicollinearity
X2Z	1,246	Non Multicollinearity
X3Z	1,581	Non Multicollinearity

Source: Secondary data processing results (appendix 5 page 94)

The purpose of the multicollinearity test is to identify whether there is a direct relationship (correlation) between one independent variable and another independent variable. The existence of multicollinearity can be checked through the Variance Inflation Factor (VIF) value. If the VIF value on each independent variable is below 10, then multicollinearity is considered not to occur.

Heteroscedasticity Test

Table 3. Heteroscedasticity Test Results

Obs*R-Squared	Significance	Description
10,607	0,156	Non Heteroscedasticity

Source: Secondary data processing results (appendix 5 page 94)

Heteroscedasticity test is tested to determine whether there is inequality of residual variance between observations in a regression model. From the test results, the Obs*R-squared significance value is 0.156. Since this value is greater than 0.05, it can be concluded that heteroscedasticity does not occur.

Autocorrelation Test

Table 4. Autocorrelation Test Results

DW	Description
1,987	Non Autocorrelation

Source: Secondary data processing results (appendix 5 page 95)

The Autocorrelation test is tested to determine whether there is a correlation between confounding errors in a period and confounding errors in the previous period in a linear regression model. If such a correlation is detected, the model is considered to have autocorrelation. Based on the test results, the Obs*R-squared significance value is 0.327. Since the value is greater than 0.05, it can be concluded that autocorrelation does not occur in the model.

Panel Data Testing

Common Effect Model

Table 5. Regression Results with Common Effect

Variables	Coefficient	t Count	Significance	Description
X1	-1.641	-4.011	0.000	Significant
X2	-14.641	-3.283	0.001	Significant
X3	0.255	0.302	0.762	Not Significant
Z	-0.134	-0.914	0.361	Not Significant
X1Z	0.056	4.104	0.000	Significant
X2Z	0.640	4.408	0.000	Significant
X3Z	-0.0009	-0.033	0.973	Not Significant
Constant = 5.031				
Fsignificance=0.000; Fstatistic=15.821				
Rsquare=0.3348				

Source: Secondary data processing results

The regression results obtained from the common effect method are 1 regression model for 57 companies (meaning that the objects studied are considered to have the same characteristics), namely:

Y = 5.031 - 1.641*X1 - 14.6416*X2 + 0.255*X3 - 0.134*Z + 0.056*X1Z + 0.640*X2Z - 0.0009*X3Z

Fixed Effect Model

Table 6. Regression Results with Fixed Effect

Variables	Coefficient	t Count	Significance	Description
X1	0,987	2,591	0,010	Significant
X2	13,985	4,380	0,000	Significant
X3	2,490	2,118	0,035	Significant
Z	0,767	2,445	0,015	Significant
X1Z	-0,033	-2,604	0,010	Significant
X2Z	-0,492	-4,097	0,000	Significant
X3Z	-0,088	-2,215	0,028	Significant
Constant = -20.076				
Fsignificance=0.000; Fstatistic=48.635				
Rsquare=0.9491				

Source: Secondary data processing results

The regression results obtained from the fixed effect method are 57 regression models for 57 companies (meaning that the objects studied are considered to have different characteristics), namely:

Y = -20.076 + 0.987*X1 + 13.985*X2 + 2.490*X3 + 0.767*Z - 0.033*X1Z - 0.492*X2Z - 0.088*X3Z + [CX=F]

Random Effect Model

Table 7. Regression Results with Random Effect

Variables	Coefficient	t Count	Significance	Description
X1	0.447	1.324	0.186	Not Significant
X2	6.979	2.508	0.012	Significant
X3	1.039	1.186	0.236	Not Significant
Z	0.525	2.691	0.007	Significant
X1Z	-0.015	-1.333	0.183	Not Significant
X2Z	-0.196	-1.892	0.059	Not Significant
X3Z	-0.036	-1.225	0.221	Not Significant
Constant = -13.456				
Fsignificance=0.000; Fstatistic=3.084				
Rsquare=0.089				

Source: Secondary data processing results (attachment 6 page 97)

The regression results obtained from the random effect method are 57 regression models (meaning that the objects studied are considered to have different characteristics). The difference with the fixed effect method is that the random effect method uses the residual value in the calculation of the constant value.

$$\beta 0=\bar{\beta}0 + ui \; ; \; i =1,...,n$$

This residual value is suspected to have an inter-temporal and inter-object relationship, so the following regression model is obtained:

Y = -13.456+ 0.447*X1 + 6.979*X2 + 1.039*X3 + 0.525*Z - 0.015*X1Z - 0.196*X2Z - 0.036*X3Z + [CX=R]

Regression Model Selection

Chow Test

Table 8. Chow Test Results

Cross-section Chi Square	Significance	Description
586,420	0,000	Accept Ha

Source: Secondary data processing results

The better fixed effect model is indicated by the significance value (0.000) <0.05 on the probability value of the chi-square. Based on the chow test results, it shows that the fixed effect model is better than the common effect model.

Hausman Test

Table 9. Hausman Test Results

Random Cross-section	Significance	Description
43,990	0,000	Accept Ha

Source: Secondary data processing results

A better random effect model is indicated by a significance value greater than 0.05, the result above is 0.000 <0.05. Based on the results of the Hausman test, it shows that the panel data regression model with the fixed effect method is better than the random effect.

LM Test

Table 10. LM Test Results

Cross-section	Significance	Description
215,018	0,000	Accept Ha

Source: Secondary data processing results

A better random effect model is indicated by a significance value <0.05. The results above obtained a significance value of 0.000 on the probability value of Breusch-Pagan. Based on the results of the LM test, it shows that the panel data regression model with the random effect method is better than the common effect.

Hypothesis Test

Coefficient of Determination (R square)

In the fixed effect results, the adjusted R-square value of 0.9296 shows that the liquidity, profitability, capital structure, company size, and moderation of company size variables with independent variables together are able to explain the effect on firm value by 92.96%.

Simultaneous Test (F Test)

The simultaneous test aims to determine whether there is a joint influence of the independent variables on the dependent variable. There is a joint influence between independent variables if the F value is greater than the F table and the significance is less than 0.05. There is a significant simultaneous influence of the variables of liquidity, Profitability, capital structure, company size,

moderation of company size with independent variables on firm value as evidenced by the significance value of f which is 0.000 so that the value is smaller than 0.05.

Partial Test (t Test)

Partial test is a test of each independent variable on the dependent variable. There is a significant influence if the significance value is smaller than alpha, which is 0.05. The following are the partial test results based on the fixed effect model:

1) The effect of liquidity on firm value is proven significant with a significance value of 0.010, which is smaller than 0.05. The coefficient of 0.987 indicates a positive influence, which means that an increase in liquidity will be followed by an increase in firm value, while a decrease in liquidity will cause a decrease in firm value. In addition, firm value is estimated to increase by 0.987 units for every one unit increase in liquidity.
2) The effect of profitability on firm value is proven significant, with a significance value of 0.000 which is smaller than 0.05. The coefficient value of 13.985 shows a positive influence, which means that the higher the profitability, the higher the firm value. Conversely, the lower the profitability, the lower the firm value. In addition, every one unit increase in profitability will be followed by an increase in firm value of 13.985 units.
3) Capital structure is proven to have a significant influence on firm value, as evidenced by the significance value of 0.035, which is smaller than 0.05. The coefficient value of 2.490 indicates a positive influence, meaning that an increase in capital structure will be followed by an increase in firm value, while a decrease in capital structure will decrease firm value. Every one unit increase in capital structure is estimated to increase firm value by 2.490 units.
4) Company size is proven to have a significant influence on firm value, with a significance value of 0.015 which is smaller than 0.05. The coefficient value of 0.767 shows a positive influence, where the larger the company size, the higher the company value, and vice versa. An increase of one unit of company size is expected to increase the company value by 0.767 units.
5) Firm size moderates the relationship between liquidity and firm value, as indicated by a significance value of 0.010, which is less than 0.05.
6) Firm size moderates the relationship between profitability and firm value, as evidenced by a significance value of 0.000, which is smaller than 0.05.
7) Firm size moderates the relationship between capital structure and firm value, as demonstrated by a significance value of 0.028, which is below 0.05.

Discussion

The Effect of Liquidity on Firm Value

Liquidity significantly affects firm value, as indicated by a significance value of 0.010, which is less than 0.05. The coefficient value of 0.987 indicates a positive relationship, meaning that higher liquidity leads to higher firm value, while lower liquidity results in lower firm value. Furthermore, this suggests that for every one-unit increase in liquidity, the firm value increases by 0.987 units.

Liquidity is the company's ability to meet its short-term obligations, such as salary payments, operational costs, short-term debt, and other obligations that require immediate payment using available funds. Company liquidity can be measured through current ratio (CR) and quick ratio (QR). When the current ratio (CR) and quick ratio (QR) show a high value, this indicates the company's good liquidity, which in turn can increase the company's value in the eyes of investors and give a positive perception of the company's condition (Saputri & Giovanni, 2021).

In signal theory, the company's ability to pay off all debts that are immediately due can be shown by liquidity. The larger the size of the company, the greater its liquidity, which indicates that the company has more current assets to support its operational activities. If the company's liquidity is in good condition, this indicates that the company is able to pay off its maturing obligations, so the company will be viewed positively by investors. This makes more investors interested in investing in the company, which in turn can increase the share price and company value (Iman et al., 2021). Based on the explanation above, it is reinforced by research conducted by (Hapsoro & Falih, 2020), (Kristianti & Foeh, 2020), and (Diastanova & Marsoem, 2023) stating that liquidity has a positive and significant effect on firm value.

Effect of Profitability on Company Value

Profitability has a significantly influence on firm value, as indicated by a significance value of 0.000 which is below the 0.05 threshold. The coefficient value of 13.985 shows a positive relationship, which means that an increase in profitability will increase firm value, and conversely, a decrease in profitability will decrease firm value. This also implies that for every one unit increase in profitability, firm value will increase by 13.985 units.

High Profitability will increase the effectiveness and efficiency in generating profits, so that the welfare of investors can increase. In signal theory, a high level of Profitability indicates a bright future opportunity, which in turn increases the value of the company. This information provides a positive signal to investors, thus attracting them to invest. In the end, there was an increase in stock prices and the company value also increased (Maryanti & Ayem, 2022). Based on the explanation above, it is reinforced by research conducted by (Satoto, 2024), (Sukendri & Aryawati, 2021), and (Mayangsari et al., 2020) state that Profitability has a positive and significant effect on firm value.

The Effect of Capital Structure on Firm Value

Capital structure has a significant impact on firm value, as reflected by a significance value of 0.035, which is less than the 0.05 threshold. The coefficient value of 2.490 indicates a positive relationship, meaning that an increase in capital structure leads to a higher firm value, while a decrease in capital structure results in a lower firm value. This also suggests that for every one-unit increase in capital structure, the firm value rises by 2.490 units.

Capital structure that affects firm value is supported by the trade off theory. According to this theory, the company will take debt when the benefits obtained are greater than the costs that must be borne. The trade off theory emphasizes the importance of the balance between tax benefits and financial risk in determining the capital structure. Profitable companies tend to increase debt to reduce the tax burden, because by increasing the debt ratio, the tax to be paid can be reduced. These tax savings then increase the company's profit, thus attracting investors to invest their capital

(Riki et al., 2022). Based on the explanation above, it can be strengthened by research conducted by (Rahayu et al., 2023), (Pramesti et al., 2021), and (Suzulia et al., 2020) stating that capital structure has a positive and significant effect on firm value.

Company Size Strengthens the Effect of Liquidity on Firm Value

Company size enhances the impact of liquidity on firm value, as demonstrated by a significance value of 0.010, which is below the 0.05 threshold. Company size represents the scale of the business entity, indicating the volume of assets it manages. A larger company generally manages more assets, which can strengthen its liquidity position, ultimately influencing the firm's value.Companies with large sizes tend to send positive signals to investors, because larger sizes often indicate a higher ability to generate profits that can improve the welfare of investors or company owners. In addition, large companies have less risk of facing financial difficulties. Therefore, the larger the size of the company, the higher and better the liquidity level. Signaling theory states that the higher the liquidity of a company, the more positive the investor's view of the company. Thus, company size can moderate the effect of liquidity on firm value (Arisudhana & Priyanto, 2023). Based on the explanation above, it can be strengthened by research conducted by (Hamdani et al., 2020), (Anjani & Yuliana, 2023), and (Fitria & Mahroji, 2023) stating that company size is able to moderate (strengthen) the effect of liquidity on firm value.

Company Size Strengthens the Effect of Profitability on Firm Value

Company size strengthens the effect of profitability on firm value, as indicated by a significance value of 0.000, which is below the 0.05 threshold. Profitability refers to the net profit of a company. A larger company, managing more assets, can potentially enhance its profitability, thereby influencing its firm value. When Profitability increases, the company's stock price usually also increases, indicating good performance and attracting investor attention. High Profitability can increase company value. Larger companies tend to be more attractive to investors to buy their shares. The more investors who buy shares, the higher the share price will be, reflecting the higher company value. Large company size is also a factor that influences investors' decisions to buy shares. In accordance with signal theory, large companies are considered capable of generating higher Profitability. Large companies are superior to small companies in controlling the market and achieving high Profitability (Meidiyustiani, 2023). Based on the explanation above, it is strengthened by research conducted by (Sari et al., 2022), (Aprilianda & Nur, 2023), and (Alhayra et al., 2024) states that company size can strengthen the effect of Profitability on firm value.

Company Size Strengthens the Effect of Capital Structure on Firm Value

Firm size strengthens the effect of capital structure on firm value as evidenced by the significance value of 0.028 so that the significance value is smaller than 0.05. Capital structure, which refers to the ratio between debt and equity, tends to differ between small and large companies. Small companies more often rely on equity capital, while large companies tend to utilize debt as a source of funding. A larger company size also makes it easier to gain the trust of creditors, which in turn increases the source of income through debt. This condition will attract

more investors, which in turn can encourage an increase in stock prices in the market and increase company value (Dayanty & Setyowati, 2020)

Based on the trade off theory of the balance between the use of debt, the company can reduce the tax burden through tax expense so that net income increases from tax deductions on interest. This also has an impact on small companies that tend to use their own capital when compared to debt, growing companies will find it easier to gain creditor confidence so that sources of funds from debt increase and large companies are more likely to have a strong source of external funding. Based on signal theory, the larger the size of the company, it will strengthen positive signals for investors which can increase the stock market price (Utami, 2023). Based on the explanation above, it is strengthened by research conducted (Anisah et al., 2023) and (Nurhayati & Kartika, 2020).

CONCLUSION

Based on the results of research on the value of financial sector companies listed on the Indonesia Stock Exchange in 2020-2023, it is concluded that liquidity, Profitability, and capital structure have a positive and significant influence on firm value. In addition, company size strengthens the influence of liquidity, Profitability, and capital structure on firm value in the financial sector. As a suggestion, the results of this study can be used as information for interested parties to assess firm value, and for future researchers it is hoped that they can develop this research by analyzing other factors that are thought to affect firm value, as well as exploring other sectors.

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