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The Influence of Liquidity, Profitability, Solvency, and Firm Size on the Firm Value of Banking Companies Listed on the IDX

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Abstract

This research aims to analyse the impact of liquidity, profitability, solvency, and firm size on the corporate value of banking companies listed on the Indonesia Stock Exchange (IDX) during the 2022–2024 period. Employing a quantitative research design with secondary data, 27 banks were selected through purposive sampling, providing 81 observations analysed via multiple linear regression. Firm value was measured using Price-to-Book Value (PBV), liquidity by Loan-to-Deposit Ratio (LDR), profitability by Return on Assets (ROA), solvency by Debt-to-Equity Ratio (DER), and firm size by the natural logarithm of total assets. All four independent variables exert a positive and statistically significant influence on firm value, both individually and simultaneously ($F = 7.326$; sig. = 0.000). The model yielded a coefficient of determination (R^2) of 0.778. The findings demonstrate that 77.8% of the variance in banking corporate value is explained by this model. This highlights that sound liquidity, robust profitability, managed debt structure, and larger operational scale are vital determinants for driving investor valuation in the Indonesian banking sector.

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

INTRODUCTION

Rapid global economic development is driving companies in Indonesia to continuously improve their performance and competitiveness. In this context, the capital market through the Indonesia Stock Exchange (IDX) plays a crucial role as a driver of economic growth. The banking sector is one of the sectors with the largest market capitalization on the IDX and serves a strategic function as an intermediary institution. The value of banking companies is highly relevant to study because it reflects investors' perceptions of the companies' success, as reflected in stock prices: the higher the stock price, the higher the company's value (PBV) [1].

In recent times, the banking sector in Indonesia has undergone significant changes, particularly regarding liquidity (LDR) and banks' financial performance. In May 2025, Bank Indonesia lowered the secondary reserve requirement from 5% to 4%, thereby providing banks with additional liquidity of approximately Rp78.45 trillion. This policy gives banks greater flexibility to extend credit and manage their funding. This decision aligns with data from the May 2025 Indonesian Banking Statistics (SPI), which shows that total third-party funds (DPK) have reached Rp8,574.48 trillion, with a liquid asset ratio of 12.27%, indicating that banks' liquidity remains safe and stable.

Preliminary observations based on data from the Indonesian Banking Statistics (SPI) for May 2025 indicate a solid banking sector: total customer deposits reached Rp8,574.48 trillion with a liquid asset ratio of 12.27%, ROA in the range of 1.7–2%, the KBMI group's CAR at 24–26%, and total assets reaching Rp12,024.67 trillion. Bank Indonesia's policy to lower the secondary reserve requirement from 5% to 4% also added approximately Rp78.45 trillion in liquidity. These conditions indicate that changes in liquidity, profitability, solvency, and company size have the potential to influence the value of banking companies listed on the IDX.

Theoretically, healthy liquidity reflects a company's ability to meet short-term obligations and has a positive impact on firm value. Profitability, as a measure of management efficiency, has been shown to contribute positively to firm value [1]. Solvency, as measured by the debt-to-equity ratio (DER), illustrates capital structure; an increase in the DER can constrain profit distribution and lower stock prices [2]. Meanwhile, a larger company size reflects a broader market capitalization and greater public recognition [3].

However, the results of previous studies remain inconsistent [4]. Sasauw found that firm size has a negative effect and solvency has a positive effect in the banking sector, while [5] demonstrated that profitability, liquidity, and solvency are all significant in the manufacturing sector. The majority of these studies used data from before 2022, and thus do not reflect post-pandemic conditions characterized by changes in monetary policy and strengthened bank capitalization. Based on this research gap, this study examines the effects of liquidity, profitability, solvency, and firm size on the firm value of banks listed on the Indonesia Stock Exchange (IDX) for the 2022–2024 period, in order to provide more relevant and up-to-date empirical evidence.

METHODS

This study employs a quantitative approach grounded in the philosophy of positivism, with the aim of describing and testing established hypotheses regarding the influence of liquidity, profitability, solvency, and firm size on the value of banking companies listed on the Indonesia Stock Exchange [21].

The research subjects are companies in the conventional banking sector listed on the Indonesia Stock Exchange (IDX) for the period 2022–2024. The banking sector was chosen due

to its significant contribution to the national economy as well as its distinctive capital structure and financial ratios compared to other sectors. Islamic banks were excluded from this study given the fundamental differences in operational principles, business models, and financial management mechanisms that could lead to inconsistencies in data analysis.

The study population comprises all banking companies listed on the IDX during the 2022–2024 period, totaling 46 companies. The sample was selected using purposive sampling, a technique based on specific criteria tailored to the research objectives. The established criteria include: (1) the company is in the conventional banking subsector and listed on the IDX during the 2022–2024 period; (2) it is not an Islamic bank and does not present Islamic accounts in its financial statements; (3) it has consistently published complete annual financial statements for three consecutive years; (4) the company has not experienced delisting, prolonged suspension, or losses during the study period; and (5) the company has sufficient data to measure all research variables. Based on these criteria, 19 companies were eliminated, leaving 27 banks in the sample, resulting in a total of 81 financial statement data points.

The data collection method used was a secondary-data-based documentary study, utilizing data obtained from annual financial reports officially published on the IDX website. This method was chosen because the data used was officially available, valid, and reliable. Data analysis was conducted in two stages. First, a descriptive analysis was performed to provide an overview of the data characteristics by calculating the mean, median, maximum, minimum, and standard deviation of each variable. Second, multiple linear regression analysis was conducted to test the simultaneous and partial effects of the independent variables on the dependent variable, using the following equation model:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

where Y is firm value, X_1 is liquidity, X_2 is profitability, X_3 is solvency, X_4 is firm size, α is the constant, β_1–β_4 are the regression coefficients, and ε is the error term.

Prior to hypothesis testing, a four-step classical assumption test was conducted. A normality test was performed to ensure that the data were normally distributed, with a significance level of >0.05 [22]. The multicollinearity test aims to detect correlations among independent variables, with criteria of a tolerance value >0.10 and a VIF <10. The autocorrelation test was conducted to determine whether there was any correlation among the residuals, with a p-value >0.05 indicating the absence of autocorrelation. The heteroscedasticity test is used to detect inconsistencies in residual variance, with a significance level >0.05 indicating that the condition of homoscedasticity is met [22].

CONCEPTUAL FRAMEWORK

Based on the framework presented, the arrows represent the independent variables liquidity, profitability, solvency, and firm size each of which individually influences firm value. Beyond these individual effects, all four independent variables collectively exert a combined influence on firm value as well.

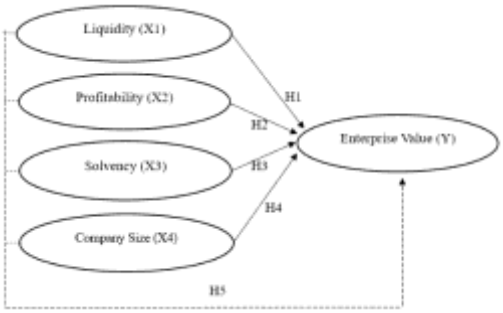

Figure 1. Conceptual Framework

Agency Theory and Signalling Theory explain the underlying mechanism through which independent variables influence banking corporate value. Agency Theory underscores that disparities in information access between management and shareholders necessitate prudent decision-making regarding credit, assets, and capital management to minimise conflicts and agency costs. Meanwhile, Signalling Theory complements this perspective by illustrating that financial indicators such as liquidity, profitability, and solvency ratios, alongside firm size are conveyed by management as positive signals to reduce information asymmetry [6]. The synthesis of these two theories provides a robust conceptual foundation, demonstrating that financial management efficiency and market signal transparency synergistically reduce investment risk, bolster investor confidence, and directly drive the enhancement of banking firm value in the capital market.

Positive information is viewed as a strong signal that the company has a favorable outlook, which tends to increase the company's value in the capital market) [7]. Thus, together, these two theories provide a strong conceptual foundation for explaining why liquidity, profitability, solvency, and firm size can influence the value of banking firms [8].

Enterprise value serves as a key metric reflecting investor expectations and confidence regarding a company's performance, growth prospects, risk management, and competitiveness within the capital market [9]. In financial research, corporate value is typically evaluated using two primary proxies, namely Price-to-Book Value (PBV) and Tobin's Q, where a ratio exceeding 1 indicates positive market appreciation that surpasses the firm's net asset or book value [10]. Ultimately, the formation of investor perceptions and market valuation depends heavily on fundamental financial information, specifically indicators of liquidity, profitability, solvency, and firm size.

Liquidity refers to a firm's capacity to meet its short-term obligations using current assets. Within the banking sector, liquidity management is paramount for maintaining operational continuity and customer trust, with the Loan-to-Deposit Ratio (LDR) offering a more relevant metric than the Current Ratio (CR) used in non-financial entities [11], [12], [13]. A healthy level of liquidity conveys a positive signal to investors that the bank possesses adequate capacity to manage short-term financial risks, thereby potentially enhancing the firm's market value.

Profitability serves as a vital indicator of financial performance, reflecting a firm's efficiency in managing its resources to generate operating profits, which is typically measured via Return on Assets (ROA) and Return on Equity (ROE) [16], [17]. Sustained or growing profitability conveys a positive signal to the capital market regarding competitive strength and long-term business sustainability. Consequently, strong financial performance mitigates perceived investment risk, enhances dividend expectations, and stimulates stock demand, ultimately driving up share prices and firm value [18].

Company size reflects a firm's operational scale commonly measured using the natural logarithm of total assets (Ln Total Assets) to normalise data variability and fundamentally influences financial stability, resource availability, and risk profiles [19]. Larger companies typically benefit from more established organisational structures, superior economic resilience, and broader access to capital markets, thereby bolstering investor confidence and positively impacting firm value in contrast to smaller, resource-constrained entities [20].

Based on the theoretical and conceptual reviews presented above, the hypotheses for this study are formulated as follows: H1: Liquidity has a positive effect on firm value; H2: Profitability has a significant positive effect on firm value; H3: Solvency has a positive effect on firm value; H4: Firm size has a positive effect on firm value.

RESULT AND DISCUSSION

This study used a sample of 81 banking companies listed on the Indonesia Stock Exchange for the period 2022–2024. Based on the descriptive statistics, the Loan-to-Deposit Ratio (LDR) variable had a minimum value of 0.20 and a maximum value of 5.28, with a mean of 0.9367 and a standard deviation of 0.61833, indicating that, in general, the banks in the sample were able to channel third-party funds at a fairly productive rate. The Return on Assets (ROA) variable has a minimum value of 0.01 and a maximum value of 3.78, with a mean of 1.2307, reflecting the companies' ability to generate profits from their assets. The Debt-to-Equity Ratio (DER) variable has a mean of 4.4306, which is a reasonable figure for the banking industry, given that most of a bank's funding comes from customer deposits. The firm size variable has a mean of 25.9781, while the dependent variable, Price-to-Book Value (PBV), has a mean of 2.2033 with a standard deviation of 5.56837, indicating a fairly wide range of firm values among the companies in the sample. Overall, the descriptive statistics indicate a sufficient level of data variation across all research variables, making them suitable for further analysis.

Normality Test

A normality test was conducted to ensure that the residuals in the regression model are normally distributed.

Table 1. Results of the Normality Test

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		81
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	10.86691955
Most Extreme Differences	Absolute	.048
	Positive	.048
	Negative	-.047
Test Statistic		.048
Asymp. Sig. (2-tailed)		.200[c,d]

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.
d. This is a lower bound of the true significance.

Source: processed secondary data (2026)

The test, using the one-sample Kolmogorov-Smirnov method, yielded an Asymp. Sig. (2-tailed) value of 0.200, which is above the significance threshold of 0.05. This indicates that the

residuals are normally distributed and that the regression model satisfies the assumption of normality.

These results were also confirmed by a normal probability plot, in which the data distribution appeared to follow a diagonal line, indicating that the data distribution was normal. Since the assumption of normality was met, the research data were deemed suitable for use in multiple linear regression analysis.

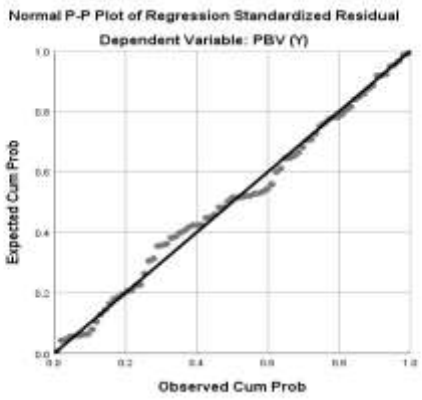

Figure 2 Normality Test Probability Plot
Source: processed secondary data (2026)

Multicollinearity Test

A multicollinearity test was conducted to detect the presence or absence of high correlation among the independent variables in the regression model, using the criteria that the model is considered free of multicollinearity if the tolerance value is greater than 0.10 and the Variance Inflation Factor (VIF) value is less than 10. Based on the test results, the LDR variable had a tolerance value of 0.968 and a VIF of 1.033; the ROA variable had a tolerance value of 0.938 and a VIF of 1.066; the DER variable had a tolerance value of 0.984 and a VIF of 1.016, and the Firm Size variable had a tolerance value of 0.982 and a VIF of 1.019.

Table 1 Multicollinearity Test Results

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-25.609	14.071		-1.820	.073		
	LDR (X1)	.450	.161	.276	2.787	.047	.968	1.033
	ROA (X2)	.370	.142	.263	2.612	.011	.938	1.066
	DER (X3)	.245	.120	.201	2.044	.044	.984	1.016
	UP (Ln) (X4)	.464	.145	.315	3.202	.032	.982	1.019

a. Dependent Variable: PBV (Y)

Source: processed secondary data (2026)

All tolerance values for the four independent variables were above 0.10, and all VIF values were below 10; therefore, it can be concluded that there were no signs of multicollinearity among the independent variables in the regression model of this study.

Heteroscedasticity Test

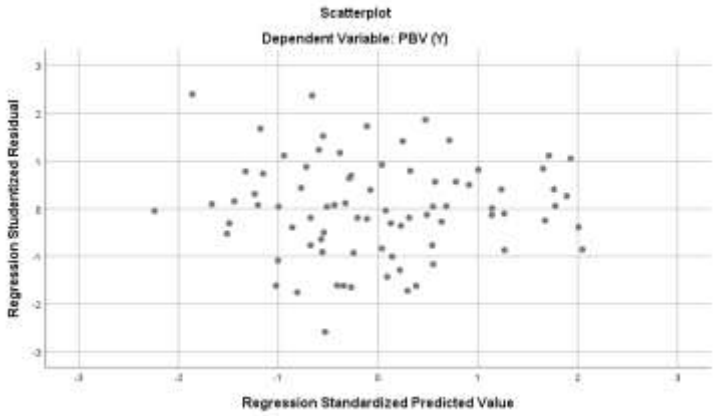

Figure 3. Heteroscedasticity Test Results
Source: processed secondary data (2026)

A test for heteroscedasticity was carried out to examine whether the variance in the regression model remained consistent across observations. This was done by evaluating a scatter plot that mapped residual values against predicted values. The results revealed that the data points were distributed randomly around zero without exhibiting any recognizable or systematic pattern. Such a finding suggests that the variance of the residuals is uniform and stable, meaning the regression model used in this research is not affected by heteroscedasticity and successfully meets this classical assumption.

Autocorrelation Test

An autocorrelation test was conducted to ensure that there was no correlation between the residuals in one observation period and the previous period in the regression model. The test used the Durbin-Watson method by comparing the calculated d value with the critical values of dL and dU.

Table 2 Autocorrelation Test Results

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.828[a]	.778	.640	12.05062	1.858

a. Predictors: (Constant), UP (Ln) (X4) , DER (X3) , LDR (X1) , ROA (X2)

b. Dependent Variable: PBV (Y)

Source: processed secondary data (2026)

Based on the test results with 81 observations and 4 independent variables at a 5% significance level, the dL value was 1.5372 and the dU value was 1.7438, so the upper limit of 4-dU was 2.2562. The Durbin-Watson value obtained, 1.858, falls within the range dU < d < 4-dU, or 1.7438 < 1.858 < 2.2562; therefore, it can be concluded that there is no evidence of autocorrelation in the regression model. Thus, the residuals across observation periods are

independent, and the regression model satisfies the assumption of non-autocorrelation, making it suitable for further analysis.

Multiple Linear Regression Analysis

Multiple linear regression analysis was conducted to determine the simultaneous and partial effects of the independent variables on the dependent variable. Based on the results of the analysis, the following regression equation was obtained: PBV = −25.609 + 0.450 LDR + 0.370 ROA + 0.245 DER + 0.464 UP. The constant term of −25.609 represents the baseline value of PBV before being influenced by the four independent variables. The regression coefficient for LDR of 0.450 indicates that a one-unit increase in LDR will increase PBV by 0.450 units, assuming all other variables remain constant; this means that the higher a bank's ability to extend credit, the higher its enterprise value.

Table 3 Results of Multiple Linear Regression Analysis

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-25.609	14.071		-1.820	.073		
	LDR (X1)	.450	.161	.276	2.787	.047	.968	1.033
	ROA (X2)	.370	.142	.263	2.612	.011	.938	1.066
	DER (X3)	.245	.120	.201	2.044	.044	.984	1.016
	UP (Ln) (X4)	.464	.145	.315	3.202	.032	.982	1.019

a. Dependent Variable: PBV (Y)

Source: processed secondary data (2026)

The ROA regression coefficient of 0.370 indicates that a one-unit increase in ROA will increase the PBV by 0.370 units, reflecting that the more efficiently a company generates profits from its assets, the higher its value in the eyes of investors. The regression coefficient for the debt-to-equity ratio (DER) of 0.245 indicates that an increase in optimally managed debt also contributes to a rise in PBV by 0.245 units. Meanwhile, the regression coefficient for firm size of 0.464 is the largest among the four variables, indicating that business scale makes the most dominant contribution to an increase in firm value compared to the other variables in this research model.

T-Test (Partial)

Table 4 T-Test Results

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-25.609	14.071		-1.820	.073		
	LDR (X1)	.450	.161	.276	2.787	.047	.968	1.033
	ROA (X2)	.370	.142	.263	2.612	.011	.938	1.066
	DER (X3)	.245	.120	.201	2.044	.044	.984	1.016
	UP (Ln) (X4)	.464	.145	.315	3.202	.032	.982	1.019

a. Dependent Variable: PBV (Y)

Source: processed secondary data (2026)

A t-test was conducted to determine the partial effect of each independent variable on the dependent variable, using a significance level of less than 0.05. Based on the test results, the LDR variable yielded a calculated t-value of 2.787 with a significance level of 0.047, which is below 0.05; therefore, it can be concluded that LDR has a positive and significant effect on PBV, and the first hypothesis is accepted. These results indicate that the higher a bank's ability to channel the funds

it has mobilized to the public, the more the company's value—as reflected by PBV will increase. The ROA variable yielded a calculated t-value of 2.612 with a significance level of 0.011, which is below 0.05; therefore, ROA has a positive and significant effect on PBV, and the second hypothesis is accepted. This indicates that the higher a company's ability to generate profit from its assets, the higher the company's value as reflected by PBV. The DER variable yielded a t-value of 2.044 with a significance level of 0.044, which is below 0.05; thus, DER has a positive and significant effect on PBV, and the third hypothesis is accepted. These results indicate that an increase in debt-financed capital structure can enhance the company's value provided it is managed optimally. The firm size variable yielded the highest t-value of 3.202 with a significance level of 0.032, which is below 0.05, Thus, firm size has a positive and significant effect on PBV, and the fourth hypothesis is accepted. These results indicate that larger firms tend to have higher enterprise values than smaller firms because investors perceive them as having greater stability and operational capacity.

F-Test (Simultaneous)

An F-test was conducted to determine whether all independent variables collectively have a significant effect on the dependent variable. Based on the test results, the calculated F-value was 7.326 with a significance level of 0.000, which is well below the 0.05 threshold. Thus, H_0 is rejected and H_1 is accepted, meaning that LDR, ROA, DER, and firm size simultaneously have a significant effect on the PBV of banking firms.

Table 5 Results of the F-Test

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4255.570	4	1063.892	7.326	.000[b]
	Residual	11036.522	76	145.217		
	Total	15292.092	80			

a. Dependent Variable: PBV (Y)

b. Predictors: (Constant), UP (Ln) (X4) , DER (X3) , LDR (X1) , ROA (X2)

Source: processed secondary data (2026)

The calculated F-value of 7.326 also indicates that the regression model used is suitable for explaining the relationship between the independent variables and the dependent variable. These results suggest that changes in a company's value, as measured by PBV, are influenced not by a single variable but by a combination of liquidity, profitability, solvency, and firm size acting together; thus, the study's simultaneous hypothesis is accepted.

Test Of The Coeficienct Of Determination (R^2)

The coefficient of determination was tested to measure the extent to which the independent variables can explain the variation in the dependent variable. Based on the analysis results, an R-squared value of 0.778 was obtained, indicating that the variables LDR, ROA, DER, and Firm Size collectively explain 77.8% of the variation in firm value as measured by PBV. Meanwhile, the

remaining 22.2% is explained by other variables outside the research model, such as dividend policy, macroeconomic conditions, interest rates, or other financial factors not included in this study.

Table 6 Results of the Coefficient of Determination Test

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.828[a]	.778	.640	12.05062	1.858

a. Predictors: (Constant), UP (Ln) (X4) , DER (X3) , LDR (X1) , ROA (X2)

b. Dependent Variable: PBV (Y)

Source: processed secondary data (2026)

An R-squared value approaching 1 indicates that the research model has very strong explanatory power and is relevant in describing the determinants of firm value in the banking sector; thus, the model is deemed to be of good quality for use in further analysis.

The Effect Of Liquidity (LDR) on Firm Value (PBV)

The results of the study indicate that liquidity, as measured by the Loan-to-Deposit Ratio (LDR), has a positive and significant effect on firm value, as measured by the Price-to-Book Value (PBV) ratio, for banking companies listed on the Indonesia Stock Exchange during the 2022–2024 period; thus, the first hypothesis is accepted. This finding can be explained by Signaling Theory, in which information regarding a bank's ability to channel funds collected from the public serves as a positive signal to investors regarding the effectiveness of the bank's intermediation function. The average LDR in the study sample of 93.67% falls within a range that can be considered optimal, meaning the banks in the sample are able to channel credit productively, leading the market to respond positively by valuing the companies higher than their book value. In relation to firm value theory, banks with a healthy LDR are viewed as having sound asset-liability management, thereby increasing investor confidence and reflected in higher stock prices relative to their book value. This finding is consistent with the results of a study by, who also found that liquidity has a positive effect on firm value.

The Effect of Profitability (ROA) on Firm Value (PBV)

The results of the study indicate that profitability, as measured by Return on Assets (ROA), has a positive and significant effect on enterprise value (PBV) for banking companies listed on the Indonesia Stock Exchange during the 2022–2024 period; thus, the second hypothesis is accepted. This finding is consistent with Signaling Theory, in which high profitability serves as a positive signal from management to the market regarding the company's future prospects and financial performance. Investors tend to interpret a high ROA as an indication that management has efficiently managed the company's assets to generate profits, thereby increasing investor interest and driving the stock price above its book value. From the perspective of firm value theory, profitability is a key determinant of firm value because it reflects a company's ability to generate returns for shareholders. The higher the ROA, the greater investors' expectations regarding future dividends and company growth, which in turn drives an increase in the price-to-book ratio (PBV).

This finding is consistent with the results of Putri's (2025) study, which also found a positive and significant effect of ROA on firm value.

The Effect of Solvency (DER) on Enterprise Value (PBV)

The results of the study indicate that solvency, as measured by the Debt-to-Equity Ratio (DER), has a positive and significant effect on enterprise value (PBV) for banking companies listed on the Indonesia Stock Exchange during the 2022–2024 period; thus, the third hypothesis is accepted. This finding can be explained through Agency Theory, in which the use of debt serves as a monitoring mechanism that reduces conflicts of interest between managers as agents and shareholders as principals. The obligation to pay interest and principal disciplines management to manage funds more efficiently and avoid using free cash flow for personal gain, thereby increasing investor confidence in the company. Unlike the non-financial sector in general, which often perceives a high DER as a signal of financial risk, in the banking sector, debt in the form of third-party funds is a core component of the business model, not an indicator of financial distress. The average DER in the sample of 4.4306 reflects a capital structure typical of banks, where the majority of funding comes from customer deposits. As long as banks are able to productively manage these funds by converting them into loans that generate returns, an increase in the DER is viewed positively by the market as an indication of strong intermediation capacity. This aligns with corporate value theory, which emphasizes that a company's value is derived from its ability to optimize all of its resources.

The Effect of Firm Size on Firm Value (PBV)

The results of the study indicate that firm size has a positive and significant effect on price-to-book value (PBV) for banking companies listed on the Indonesia Stock Exchange during the 2022–2024 period; thus, the fourth hypothesis is accepted. This finding can be explained through Agency Theory, whereby large companies generally have more robust oversight systems, better corporate governance, and greater transparency compared to small companies, thereby reducing agency costs and enhancing investor confidence. From the perspective of Signaling Theory, a large company size—as reflected by substantial total assets signals stability and strong operational capacity to the market. Large banks are generally perceived as having broader access to funding, better risk diversification, and greater resilience in uncertain economic conditions, leading investors to be willing to value their shares higher than their book value. Linked to corporate value theory, business scale is one of the main foundations for creating corporate value in the banking sector, given that the size of total assets is directly related to lending capacity and future profit potential. The dominant influence of this variable is also consistent with the capital-intensive nature of the banking industry, where the scale of operations is a key determinant of competitiveness and market confidence. This finding is consistent with the research by Agustar (2025), who also found that firm size is the most dominant variable influencing firm value.

The Simultaneous Effects of Liquidity, Profitability, Solvency, and Firm Size on Firm Value (PBV)

Based on the results of the F-test, liquidity, profitability, solvency, and firm size collectively have a significant effect on firm value in the banking sector listed on the Indonesia Stock Exchange for the 2022–2024 period; therefore, the fifth hypothesis is accepted. These results indicate that firm value is not determined by a single factor but rather by a combination of various interrelated

and complementary financial factors. Liquidity reflects a company's ability to meet its short-term obligations; profitability indicates a company's ability to generate profits; solvency describes a company's ability to meet all its obligations, both long-term and short-term; while firm size reflects the extent of a company's resources and operational capacity. Collectively, these four factors shape investors' perceptions of a company's performance and prospects, thereby jointly influencing the company's market value. This study makes a unique contribution because no previous research has specifically examined these four variables simultaneously in relation to the market value of banking firms during the same period; thus, these findings enrich the empirical evidence in the literature on banking finance in Indonesia.

DISCUSSION

The empirical analysis highlights how liquidity and profitability function as vital signaling mechanisms within the banking sector, conceptually distinguishing financial institutions from non-financial industries. Whilst empirical literature across non-financial sectors such as manufacturing and energy frequently demonstrates inconsistent investor reactions to liquidity due to distinct inventory dynamics and operational structures, the banking industry inherently relies on an optimal Loan-to-Deposit Ratio to demonstrate effective financial intermediation. High profitability further reinforces positive market perception by signaling managerial efficiency in generating returns from total assets. Consequently, superior financial performance reassures investors regarding business sustainability and potential dividend growth, thereby driving market valuation above book value.

The positive relationship between solvency and corporate value reveals a paradigm shift that sets commercial banking apart from traditional corporate finance frameworks. In conventional non-financial sectors, high debt exposure is generally interpreted as an indicator of heightened financial distress and capital risk. Conversely, in the banking sector, debt primarily consists of third-party deposits, which serve as the essential funding base for credit creation rather than a sign of insolvency. From the perspective of agency theory, the obligation to manage substantial leverage acts as a disciplining oversight mechanism for management, mitigating conflicts of interest and curbing opportunistic free cash flow spending. As long as these funds are productively deployed into income-generating loans, elevated leverage is viewed by capital markets as strong intermediation capacity, ultimately enhancing firm value.

Firm size emerges as the most dominant determinant of banking corporate value, underscoring the capital-intensive nature and structural scale requirements of the financial sector. Unlike smaller enterprises or volatile commercial sectors that often struggle with limited resources and restricted access to capital markets, larger banking institutions benefit significantly from economies of scale, robust governance structures, and superior risk diversification. In a post-pandemic economic environment characterized by monetary policy adjustments and heightened capital requirements, greater operational scale signals institutional stability and resilience to investors. This reduced information asymmetry and enhanced market confidence solidify business scale as the central foundation for driving equity valuation on the stock exchange.

CONCLUSION

This study aims to analyze the effects of Liquidity (LDR), Profitability (ROA), Solvency (DER), and Firm Size on Firm Value among banking companies listed on the Indonesia Stock Exchange for the period 2022–2024. The results of the analysis show that, individually, all four independent variables have a positive and significant effect on firm value. Optimal liquidity reflects

the effectiveness of a bank's intermediary function and enhances investor confidence. High profitability indicates management efficiency in generating profits, thereby reinforcing positive market perceptions. Properly managed solvency demonstrates a bank's ability to optimize its funding structure using third-party funds, which is a common characteristic of the banking industry. Meanwhile, firm size proved to be the variable with the most dominant influence, as a large business scale reflects greater stability, access to funding, and competitiveness, thereby increasing investor confidence.

Collectively, these four variables have a significant impact on firm value, accounting for 77.8% (R-squared), while the remaining 22.2% is influenced by other factors outside the model, such as dividend policy, firm growth, corporate governance, and macroeconomic conditions. These findings confirm that financial performance and company size are key determinants of corporate value in the banking sector, and thus can serve as strategic considerations for both management and investors in their decision-making.

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