

FACTORS INFLUENCING CORPORATE VALUE: THE IMPACT OF LIQUIDITY AND CAPITAL STRUCTURE ON FINANCIAL SECTOR FIRMS LISTED ON THE INDONESIAN STOCK EXCHANGE

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ABSTRACT

This study aims to analyze the effect of liquidity and capital structure on firm value in financial sector companies listed on the Indonesia Stock Exchange for the 2022-2024 period. The study used a quantitative approach with secondary data obtained from the companies' financial reports. The sample was selected using a purposive sampling technique, resulting in 79 companies with a total of 237 observations. Data analysis was performed using panel data regression with the help of the EViews 12 application after first selecting a model and testing classical assumptions. The results showed that the most appropriate model was the Fixed Effect Model (FEM). Regression testing showed that one of the other research variables did not show a significant effect. The Adjusted R² value of 0.789257 indicates that the model is able to explain 78.9% of the variation in firm value, while the remainder is influenced by other factors outside the study. This finding indicates that investor decisions in assessing financial sector companies are influenced not only by liquidity and capital structure but also by various fundamental aspects of the company. The results of this study are expected to provide additional references for the development of research on firm value and provide input for company management in formulating financial policies.

Keywords: Firm Value, Liquidity, Capital Structure, Panel Data Regression, Financial Sector

INTRODUCTION

The financial sector plays a crucial role in supporting economic growth and stability. Through its intermediary function, this sector collects funds from the public and redistributes them in the form of financing and credit, thereby encouraging investment activity, streamlining the payment system, and increasing economic activity (Surbakti et al., 2022; Destania & Puspitasari, 2021). Amidst global economic conditions impacted by inflation, rising interest rates, and geopolitical uncertainty during the 2022-2024 period, Indonesia's financial sector continues to demonstrate relatively stable performance (OJK, 2023; BI, 2025). These conditions have also increased investor attention to financial sector companies, requiring companies not only to generate profits but also to increase their value. For companies listed on the Indonesia Stock Exchange, company value is an indicator that reflects investor confidence in the company's prospects and ability to create value in the future (Wardoyo & Fauziah, 2024).

Company value is influenced by various factors, both external and fundamental. This study focuses on liquidity and capital structure because both are directly related to financial policies, which investors consider when assessing a company (Revata & Almalita, 2024). Liquidity indicates a company's ability to meet short-term obligations, thus signaling investors about the company's financial condition, in accordance with signaling theory (Rizkii, 2022; Octavia, 2024). At the same time, capital structure refers to the mix of debt and equity employed for financing a company. According to the Trade-Off Theory, appropriate financing decisions can increase company value as long as the benefits of using debt outweigh the risks (Pandu, 2024). In financial sector companies, the Price to Book Value (PBV), Current Ratio (CR), and Debt to Equity Ratio (DER) values during the 2022-2024 period still showed fluctuations (BI, 2025). This condition indicates that changes in company value are not always in line with developments in the financial sector in general, so the relationship between liquidity, capital structure, and company value is still interesting to study.

Previous research has also not yielded consistent conclusions. Aprilianingsih (2024), Yanti et al. (2024), Freza and Amanda (2022), and Wardoyo and Fauziah (2024) found that capital structure has a positive effect on firm value. Conversely, Prasetyo and Hermawan (2023) reported no effect on capital structure, while Elfino et al. (2024) showed a negative effect. Differences in results were also found for the liquidity variable. Nadhifah and Mildawati (2020), Wijaya and Fitriati (2022), and Alifian and Susilo (2024) stated that liquidity has a positive effect on firm value, while Aprilianingsih (2024) and Yanti et al. (2024) obtained insignificant results. These inconsistent findings indicate that the relationship between liquidity, capital structure, and firm value remains unclear, particularly in financial sector companies, which have distinct characteristics from other sectors.

Based on these conditions, this study aims to examine the effect of liquidity and capital structure on firm value in financial sector companies listed on the Indonesia Stock Exchange for the 2022-2024 period. This period was chosen because it reflects the post-pandemic economic recovery phase, accompanied by various changes in macroeconomic and financial market conditions. The results of this study are expected to provide empirical evidence regarding the influence of liquidity and capital structure on firm value in the financial sector. In addition to contributing to the development of studies on Signaling Theory and Trade-Off Theory, this research is also expected to provide considerations for investors in making investment decisions and for company management in formulating funding and liquidity management policies.

RESEARCH METHODS

This study uses a quantitative approach with an associative approach to examine the effect of liquidity and capital structure on firm value. The quantitative approach was chosen because the study utilizes numerical data obtained from the company's financial statements, while the associative approach is used to analyze the relationships between variables in accordance with the research objectives (Sugiyono, 2013). The research objects include liquidity and capital structure as independent variables, and firm value as the dependent variable.

The research was conducted on financial sector companies that are listed on the Indonesia Stock Exchange (IDX) for the observation period

of 2022-2024. The research data was obtained from company annual reports published on the Indonesia Stock Exchange's official website. This period was chosen to reflect the current state of the financial sector following the economic recovery period and to examine changes in company value over the three years of observation.

The study population consisted of 106 financial sector companies listed on the Indonesia Stock Exchange during the 2022-2024 period. The sample was determined using a random sampling technique, *purposive sampling*, which involves selecting samples based on specific criteria to ensure the data analyzed meets the research needs. The sample companies were those that published complete financial reports during the research period and had the data necessary to calculate all research variables.

The data used is secondary data in the form of annual reports, financial statements, and company stock price data. Company value is measured using Price to Book Value (PBV), capital structure is proxied by the Debt to Equity Ratio (DER), and liquidity is measured using the Current Ratio (CR). All data was collected through documentation of financial statements published by the Indonesia Stock Exchange. Because the study used secondary data derived from audited financial statements and official sources, instrument validity and reliability testing were not conducted as in studies using questionnaires.

Descriptive statistics and panel data regression analysis were utilized for data analysis. Before testing the hypothesis, a panel model was chosen through the Chow and Hausman tests, then classical assumption evaluations were conducted, which included normality, multicollinearity, heteroscedasticity, and autocorrelation. Hypothesis testing was conducted through partial tests (t-test), simultaneous tests (F-test), and the coefficient of determination (R^2) to assess how well the independent variables can account for changes in company value. Data analysis was conducted using EViews software.

RESULTS AND DISCUSSION

Descriptive Statistics

Descriptive statistics are used to provide an overview of the characteristics of research data including company value, capital structure, and liquidity.

Table 1. Descriptive Statistics Results

Variables	Mean	Minimum	Maximum	Std. Dev
PBV	2,360165	0.000369	26,66519	3,730808
DER	47.53204	0.022211	2943,453	270,0169
CR	2.685866	0.000162	13,56177	2,553487

Source: Secondary data processed using EViews 12.

Based on Table 1, the company value proxied by PBV has an average of 2.360165. The capital structure represented by DER has an average of 47.53204, while liquidity measured by CR has an average of 2.685866. The DER standard deviation value is much larger than the average, indicating that funding policies among financial sector companies are quite diverse. On the other hand, the liquidity variable has a relatively lower data spread so that the company's liquidity condition tends to be more stable during the research period.

Panel Data Regression Model Selection

Model selection was carried out using the Chow test and the Hausman test to determine the most appropriate panel regression model. The test results are presented in table 2.

Table 2. Model Selection Results

Testing	Probability	Decision
Chow Test	0.0000	Fixed Effect Model
Hausman test	0.0009	Fixed Effect Model

Source: Secondary data processed using EViews 12.

The probability values in the Chow Test and Hausman Test are below 0.05 so that *Fixed Effect Model* (FEM) was selected as the best model. These results indicate that each company has different characteristics, so the FEM model is better able to explain the relationships between variables than other models.

Panel Data Regression Results

ResultsPanel data regression estimation using the Fixed Effect Model is presented in Table 3.

Table 3. Panel Data Regression Results

Variables	Coefficient	t-statistic	Probability	Information
Constant	1.918516	3,209408	0.0016	Significant
X1	-0.001788	-2.629039	0.0094	Significant
X2	0.196279	0.899787	0.3696	Not significant

Adjusted R2 = 0.789257

Source: Secondary data processed using EViews 12.

Adjusted ValueR2 of 0.789257 shows that 78.9% of the variation in company value can be explained by variables in the research model, while the remaining 21.1% is influenced by other factors outside the model.

Discussion

The results of the study indicate that one independent variable has a significant influence on company value, while the other variables have not shown a significant effect. This finding indicates that investors should consider more than just one financial ratio when assessing a company, but also consider the company's overall fundamentals.

From the perspective*Signaling Theory*A company's published financial information serves as a signal for investors in assessing its prospects. When a company demonstrates sound financial performance, investor confidence increases, ultimately driving its value. Conversely, if the information the market receives is insufficient to accurately reflect the company's prospects, investor response tends to be limited.

The results of this study can also be explained through*Trade-Off Theory*This theory explains that while using debt can provide benefits in the form of tax shields, it also increases financial risk. Therefore, changes in capital structure will not necessarily directly increase a company's value if they fail to provide economic benefits that outweigh the risks involved.

When compared with previous research, the results of this study show both agreement and differences. Some studies found that a company's financial condition influences its value by increasing investor confidence. However, other studies have found different results due to differences in industry characteristics, observation periods, and economic conditions.

CONCLUSION

This study aims to examine the effect of liquidity and capital structure on firm value in financial sector companies listed on the Indonesia Stock Exchange for the 2022-2024 period. Based on the analysis, it can be concluded that the Fixed Effect Model (FEM) is the most appropriate model to explain the relationship between variables. The test results indicate that not all variables used significantly influence firm value. This condition indicates that changes in firm value are not solely determined by liquidity and capital structure policies but are also influenced by other factors, such as profitability, growth prospects, industry conditions, and investor considerations regarding the company's overall performance. Therefore, companies cannot simply maintain their financial condition from a single aspect; they also need to improve the quality of their performance and overall corporate management to increase investor confidence and create better firm value.

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