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Determinant of Firm Value with Profitability as an Intervening Variable in Digital Banks

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Abstract

This study aims to analyse the influence of firm size, leverage, and liquidity on firm value, with profitability as an intervening variable, focusing on digital banks registered with the Financial Services Authority (OJK) during the period 2021–2023. A quantitative research approach was employed using path analysis techniques. The sample was selected through purposive sampling, resulting in seven digital banking companies that met the study criteria. The results indicate that leverage and liquidity have a significant effect on firm value. Firm size and profitability do not have a significant effect on firm value. Firm size, leverage, and liquidity also do not significantly influence profitability. Profitability does not function as a mediating variable between the independent variables and firm value.

Keywords: PBV, ROA, Natural logarithm of total assets, DAR, LDR

1. Introduction

Banks are widely recognized as financial institutions that gather money from the public, transform it into savings products, and redistribute it by offering credit under specific terms and conditions designed to serve the public interest (Fadlan, 2022). The banking sector is currently experiencing a digital transformation driven by changes in consumer behavior favoring digital services. Between 2017 and 2021, global digital transactions saw a 118% increase, rising from $3.09 trillion to $6.75 trillion (Statista, 2021). In contrast, Indonesia experienced even more remarkable growth, with a 1,556% surge in digital transactions from 2017 to 2020. In 2021, electronic money transactions in the country reached IDR 786.35 trillion—an increase of IDR 281.39 trillion (55.73%) compared to IDR 504.96 trillion in 2020. The advancement of digital banking is largely driven by three key factors: digital opportunity, digital behaviour, and digital transaction trends. Several factors contribute to these stock price movements, including advancements in digital technology, rising consumer confidence in digital banking, and the fast-paced growth of Indonesia's digital economy. While digital bank stock prices remained relatively stable in early 2020, a significant surge began in mid-2021 as more customers transitioned to digital banking platforms.

This reflects the market's confidence in the promising future of Indonesia’s expanding digital banking sector. The rise in share prices aligns with the increasing value of digital banks, supported by advancements such as product innovation, broader service offerings, and greater digital literacy—factors that have reinforced their role in the country's financial landscape. Internal factors influencing digital banks can be assessed through various financial ratios, including profitability, company size, liquidity, and leverage. Meanwhile, external factors may involve elements such as interest rates, inflation, market growth, and exchange rates (Suryantini & Arsawan, 2014).

Agency theory explains the relationship between principals (e.g., shareholders) and agents (e.g., managers), focusing on resolving issues that arise when agents pursue their own interests instead of those of the principals (Jensen, M. C., & Meckling, W. H.,1976). Agency theory suggests that conflicts of interest between managers (agents) and shareholders (principals) can impact firm value. Managers may not always act in the best interest of shareholders, leading to decisions that reduce the overall value of the firm.

Firm value represents the total market valuation of a company’s financial claims, encompassing both its equity and debt. It serves as an all-encompassing indicator of the company’s overall economic value (Brigham, E. F., & Daves, P. R., 2013). Firm value is a key concept for investors, acting as a market indicator to evaluate a company's overall performance and level of success. It plays a significant role

in shaping investor perceptions when making investment decisions. This value is affected by both internal and external factors. Internally, it can be analyzed through financial ratios such as profitability, firm size, liquidity, and leverage. One common method for measuring firm value is the Price to Book Value (PBV) ratio, which compares a company's stock price to its book value per share. Factors like profitability, company size, leverage, and liquidity are known to significantly influence firm value (Kurniawan & Ardiansyah, 2020).

Firm size refers to the scale of a business, which can be categorized in several ways, including revenue, total assets, and total equity (Brigham & Houston, 2011). It is often considered a factor that influences firm value, as larger companies typically have easier access to funding sources that support their strategic goals (Indriyani, 2017). One common measure of company size is total assets. A high level of total assets suggests strong long-term prospects and indicates that the company is more stable and better positioned to generate profits compared to firms with smaller asset bases (Anggita, 2022). Studies by Farizki et al. (2021) and Anggita (2022) found that company size positively affects firm value. However, research by A'yun et al. (2022) and Santoso & Junaeni (2022) suggests that company size has no significant impact on firm value.

Leverage refers to the ratio used to assess the extent to which a company relies on debt to finance its assets (Kasmir, 2019). It is commonly measured using the Debt-to-Assets Ratio (DAR), which indicates the proportion of a company's assets financed through debt and reflects the level of funding provided by creditors compared to that from shareholders (Apriantini et al., 2022). Studies by Anggita (2022) and Farizki et al. (2021) suggest that leverage has a positive impact on firm value. In contrast, findings by Santoso & Junaeni (2022) and Aruan et al. (2022) reveal that leverage does not significantly influence firm value.

Liquidity refers to a company's ability to meet its short-term financial obligations (Owolabi, 2012). Firms with strong liquidity are often viewed favorably by investors, as it reflects sound financial health. One common metric for assessing liquidity is the Loan-to-Deposit Ratio (LDR), which compares the total amount of loans issued to the total third-party funds collected. A higher LDR indicates lower liquidity for the bank (Korompis et al., 2020). According to Aruan et al. (2022), liquidity has a positive but statistically insignificant effect on firm value. In contrast, Farizki et al. (2021) found that liquidity does influence firm value, while A'yun et al. (2022) reported no significant relationship between liquidity and firm value.

Profitability refers to a company's ability to generate earnings over a given period. It is commonly assessed using Return on Assets (ROA), which indicates how effectively a company utilizes its assets to produce net income from operations (Apriantini et al., 2022). Studies by Anggita (2022) and Santoso & Junaeni (2022) concluded that profitability has a positive impact on firm value. However, findings by A'yun et al. (2022) suggest a different perspective, showing that firm size and liquidity do not influence firm value when profitability is used as a mediating variable.

Previous research has shown inconsistent results regarding the impact of external financial ratios on firm value, likely due to differences in research periods, sample characteristics, and methodologies. As a result, further investigation is necessary to analyze the effects of firm size, leverage, and liquidity on firm value, with profitability acting as an intervening variable. This study will focus on digital banks registered with the Financial Services Authority (OJK) during the 2021–2023 period.

2. Methods

This study employs a quantitative research approach, utilizing concrete numerical data analyzed through statistical techniques. The research population consists of all digital banks registered with the Financial Services Authority (OJK) during the 2021–2023 period. A purposive sampling method was used to select the sample, resulting in seven digital banks being included in the study. The data analysis involves several methods, including descriptive statistics, classical assumption tests (normality, heteroscedasticity, multicollinearity, and autocorrelation), path analysis, the Sobel test, and hypothesis testing using the t-test.

3. Results and Discussion

Descriptive Statistical Analysis

The statistical analysis offers an overall summary of the observational data utilized in this research. It includes information such as the number of observations, the minimum and maximum

values, the average (mean), and the standard deviation for both the dependent and independent variables. The outcomes of the descriptive statistical analysis are presented as follows:

	N	Minimum	Maximum	Mean	Std. Deviation
Firm Size	21	29,17	33,15	31,0505	1,30750
Leverage	21	32,10	85,66	71,4995	16,05151
Liquidity	21	28,11	96,42	63,6795	15,90655
Profitability	21	-18,06	4,14	-0,6052	4,84676
Firm Value	21	0,37	71,98	17,3076	25,58263
Valid N (listwise)	21				

Table 1. Results of Descriptive Statistical Calculations
Source: Processed secondary data (2025)

Referring to the results in Table 1, the average company size—measured using the natural logarithm of total assets—is 31.0505, suggesting that the digital banks in the sample possess considerable asset levels, ranging from 29.17 to 33.15. This corresponds to a minimum asset value of IDR 4.6 trillion and a maximum of IDR 249.7 trillion. The average leverage, represented by the Debt to Assets Ratio (DAR), is 71.4995%, indicating that a large portion of the companies' assets is financed through debt. The DAR ranges from a low of 32.10% to a high of 85.66%.

In terms of liquidity, measured by the Loan to Deposit Ratio (LDR), the average is 63.6795%, suggesting that the companies are relatively aggressive in issuing loans. The LDR varies from 28.11% to 96.42%. For profitability, assessed by Return on Assets (ROA), the average is -0.6052, highlighting that digital banks are still struggling to operate profitably. The lowest ROA recorded is -18.06, while the highest is 4.14.

Lastly, the average firm value, indicated by the Price to Book Value (PBV), is 17.3076, implying that digital bank stocks are generally overvalued. PBV values show wide variation across companies, with a minimum of 0.37 and a maximum of 71.98.

Classical Assumption Test

Normality Test

The purpose of the normality test is to assess whether the data used in the study follow a normal distribution (Fitri et al., 2023). In this research, the Kolmogorov-Smirnov test was applied to evaluate normality, using SPSS software. The results of the normality test are shown in the following table:

One-Sample Kolmogorov-Smirnov Test Dependent Variable: Profitability

		Unstandardized Residual
N		21
Normal Parameters[a,b]	Mean	0E-7
	Std. Deviation	4,28926353
Most Extreme Differences	Absolute	,251
	Positive	,172
	Negative	-,251
Kolmogorov-Smirnov Z		1,151
Asymp. Sig. (2-tailed)		,141
a. Test distribution is Normal.		
b. Calculated from data.		

One-Sample Kolmogorov-Smirnov Test Dependent Variable: Firm Value

		Unstandardized Residual
N		21
Normal Parameters[a,b]	Mean	0E-7
	Std. Deviation	17,55727422
Most Extreme Differences	Absolute	,151
	Positive	,151
	Negative	-,109
Kolmogorov-Smirnov Z		,692
Asymp. Sig. (2-tailed)		,725
a. Test distribution is Normal.		
b. Calculated from data		

Table 2. Result of Normality Test

Referring to Table 2, the significance value for the firm value variable is 0.725, while the profitability variable has a significance value of 0.141. Since both values are greater than 0.05, it can be concluded that the residuals are normally distributed, and the data satisfy the assumptions of the normality test.

Heteroscedasticity Test

The heteroscedasticity test aims to identify whether there is inconsistency in the residual variance across observations (Ghozali, 2018). When the variance of the residuals remains constant, it is referred to as homoscedasticity. An ideal regression model should display homoscedasticity and be free from heteroscedasticity issues. The outcome of the heteroscedasticity test is illustrated in the scatterplot below:

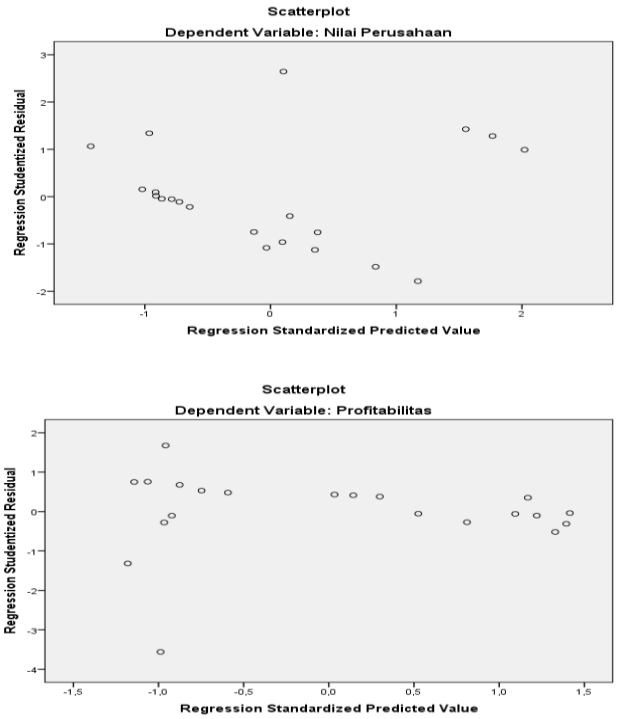

Figure 2. Heteroscedasticity Test Results
Source: Processed secondary data (2025)

As shown in Figure 2, the scatterplot points are dispersed randomly and do not follow any distinct pattern. This indicates that the regression model does not exhibit heteroscedasticity, suggesting that the assumption of homoscedasticity is met.

Multicollinearity Test

The multicollinearity test is conducted to assess whether a strong or near-perfect linear correlation exists among the independent variables in a regression model. This can be evaluated using the tolerance and Variance Inflation Factor (VIF) values (Widana & Muliani, 2018). When independent variables are highly correlated, it becomes challenging to isolate the individual effect of each variable, potentially leading to inaccurate estimates of the regression coefficients (Indartini & Mutmainah, 2024). The results of the multicollinearity test are shown in the following table:

Dependent Variable Model of Firm Value		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Firm Size	,572	1,749
	Leverage	,643	1,554
	Liquidity	,588	1,700
	Profitability	,783	1,277

Dependent Variable Model of Profitability		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Firm Size	,612	1,635
	Leverage	,789	1,268
	Likuidity	,599	1,671

Table 3. Multicollinearity Test Results
Source: Processed secondary data (2025)

Based on the results shown in Table 3, all tolerance values exceed 0.10 and the VIF values are below 10. These results indicate that there is no multicollinearity present in the regression model used in this study.

Autocorrelation Test

The autocorrelation test is used to assess whether there is a correlation between the residuals of one observation and those of other observations in datasets structured by time (time series) or location (cross-sectional). Autocorrelation may arise when the independent variables are lagged versions of the dependent variable or when the data do not follow a purely random pattern (Indartini & Mutmainah, 2024). The results of the autocorrelation test are shown in the following table:

Model Summary[b]					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,727[a]	,529	,411	19,62963	1,954

a. Predictors: (Constant), Profitability, Liquidity, Leverage, Firm Size
b. Dependent Variable: Nilai Perusahaan

Model Summary[b]					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,466[a]	,217	,079	4,65236	2,019

a. Predictors: (Constant), Liquidity, Leverage, Firm Size
b. Dependent Variable: Profitabilitas

Table 4. Autocorrelation Test Results
Source: Processed secondary data (2025)

According to Table 4, the dependent variable firm value has a Durbin-Watson (DW) statistic of 1.954. This value lies between the upper limit of 1.8116 and the lower limit of 2.1884 (calculated as 4 - DU), indicating no autocorrelation (1.8116 < 1.954 < 2.1884). Similarly, for the dependent variable profitability, the DW value is 2.019, which also falls between the upper limit of 1.6694 and the lower limit of 2.3306 (1.6694 < 2.019 < 2.3306). Based on these results, it can be concluded that both models in this study are free from autocorrelation.

Path Analysis

Path analysis is a technique used to examine the relationships among variables, allowing researchers to determine both direct and indirect effects of independent variables on a dependent variable (Riduwan & Kuncoro, 2014). It helps quantify the extent to which an independent variable influences the dependent variable, either directly or through an intervening (mediating) variable. In this study, path analysis is applied to evaluate the effects of firm size, leverage, and liquidity on firm value, including the indirect effects mediated by profitability. The results of the path analysis, conducted using SPSS, are shown in the following table:

Coefficients[a]

Model 1		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-202,842	122,460		-1,656	,117
	Firm Size	7,666	4,439	,392	1,727	,103
	Leverage	-,998	,341	-,626	-2,929	,010
	Liquidity	,834	,360	,519	2,320	,034

	Profitability	-,587	1,023	-,111	-,574	,574

a. Dependent Variable: Firm Value

Coefficients[a]

Model 2		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-27,641	28,239		-,979	,341
	Firm Size	1,106	1,017	,298	1,087	,292
	Leverage	-,143	,073	-,474	-1,959	,067
	Liquidity	,046	,085	,150	,541	,596

a. Dependent Variable: Profitability

Table 5. Path Analysis Results

Source: Processed secondary data (2025)

Based on the results presented in Table 5, Model 1 shows that firm size does not have a significant direct effect on firm value, as indicated by a significance value of 0.103, which is greater than 0.05. On the other hand, leverage and liquidity exhibit significant direct effects on firm value, with significance values of 0.010 and 0.034, respectively—both below the 0.05 threshold. Additionally, profitability does not have a significant direct impact on firm value, with a significance value of 0.574.

In Model 2, the results reveal that firm size, leverage, and liquidity do not significantly influence profitability, with significance values of 0.292, 0.067, and 0.596, respectively—all exceeding 0.05.

Sobel Test

Steps for calculating sobel test as follows:

a. Sobel Test Calculation for the Firm Size Variable (X1)

To assess whether firm size (X1) has an indirect effect on firm value through the profitability variable, the Sobel test is applied. This test evaluates the significance of the mediation effect by calculating the standard error of the indirect path coefficient.$Sab = \sqrt{b^2sa^2 + a^2sb^2 + sa^2sb^2}$

$Sab = \sqrt{(0{,}3446)(1{,}0343) + (1{,}2232)(1{,}0465) + (1{,}0343)(1{,}0465)} = \sqrt{2{,}7189} = 1{,}6489$

Calculation of indirect influence by comparing t_{count} and t_{table} as follows:

$$t = \frac{ab}{sab} = \frac{1{,}106 \times (-0{,}587)}{1{,}6489} = \frac{-0{,}6492}{1{,}6489} = -0{,}3971$$

Given that the t-table value is 2.1199 (with degrees of freedom = N - k), and the calculated t-value (t-count) is -0.3971, it can be concluded that t-count < t-table. This result indicates that firm size does not have a significant indirect effect on firm value through profitability. In other words, profitability does not mediate the relationship between firm size and firm value.

b. Sobel Test Calculation for the Leverage Variable (X2)

To evaluate whether leverage (X2) has an indirect effect on firm value through the profitability variable, the following formula is used:

$Sab = \sqrt{b^2sa^2 + a^2sb^2 + sa^2sb^2}$

$Sab = \sqrt{(0{,}3446)(0{,}0053) + (0{,}0204)(1{,}0465) + (0{,}0053)(1{,}0465)} = \sqrt{0{,}0286} = 0{,}1691$

Calculation of indirect influence by comparing t_{count} and t_{table} as follows:

$$t = \frac{ab}{sab} = \frac{(-0{,}143) \times (-0{,}587)}{0{,}1691} = \frac{0{,}0839}{0{,}1691} = 0{,}4962$$

Based on the known t-table value of 2.1199 (with degrees of freedom = N - k) and the calculated t-count of 0.4962, it can be concluded that t-count < t-table. This indicates that leverage does not have a significant indirect effect on firm value through profitability. In other words, profitability does not mediate the relationship between leverage and firm value.

c. Sobel Test Calculation for the Liquidity Variable (X3)

To assess whether liquidity (X3) has an indirect effect on firm value through the profitability variable, the following is used:

$Sab = \sqrt{b^2sa^2 + a^2sb^2 + sa^2sb^2}$

$Sab = \sqrt{(0{,}3446)(0{,}0072) + (0{,}0021)(1{,}0465) + (0{,}0072)(1{,}0465)} = \sqrt{0{,}0122} = 0{,}1105$

Calculation of indirect influence by comparing t_{count} and t_{table} as follows:

$$t = \frac{ab}{sab} = \frac{0,046 \times (-0,587)}{0,1105} = \frac{-0,0270}{0,1105} = -0,2443$$

Given that the t-table value is 2.1199 (with degrees of freedom = N - k) and the calculated t-count is -0.2443, it is clear that t-count < t-table. This result indicates that liquidity does not have a significant indirect effect on firm value through profitability. In other words, profitability does not mediate the relationship between liquidity and firm value.

Based on the calculations above, the results of the path analysis summarizing the influence of the independent variables on the dependent variable can be presented in the following table:

Influence of Variables	Causal Influence		Total	Conclusion
	Direct	Indirect		
$X_1 \rightarrow Y$	0,103	-	-	-
$X_2 \rightarrow Y$	0,010	-	-	-
$X_3 \rightarrow Y$	0,034	-	-	-
$X_1 \rightarrow Z$	0,292	0,292 × 0,574 = 0,1676	0,4596	There is no mediating influence
$X_2 \rightarrow Z$	0,067	0,067 × 0,574 = 0,0385	0,1055	There is no mediating influence
$X_3 \rightarrow Z$	0,596	0,596 × 0,574 = 0,3421	0,9381	There is no mediating influence
$Z \rightarrow Y$	0,574			

Table 6. Summary of Path Coefficients, Direct Effects, Indirect Effects, and Total Effects of Independent Variables on the Dependent Variable.
Source: Processed secondary data (2025)

Hypothesis Testing

Hypothesis testing is conducted to evaluate the research hypotheses. This study employs the t-test (partial test) to assess the individual effect of each independent variable on the dependent variable. The decision rule is based on a comparison between the calculated t-value and the t-table value, as well as the significance level. The results of the hypothesis testing in this study are summarized in the following table:

Path	t-test	Sig.
$X_1 \rightarrow Y$	1,727 < 2,10982	0,103 > 0,05
$X_2 \rightarrow Y$	-2,929 < 2,10982	0,010 < 0,05
$X_3 \rightarrow Y$	2,320 > 2,10982	0,034 < 0,05
$X_1 \rightarrow Z$	1,087 < 2,10982	0,292 > 0,05
$X_2 \rightarrow Z$	-1,959 < 2,10982	0,067 > 0,05
$X_3 \rightarrow Z$	0,541 < 2,10982	0,596 > 0,05
$Z \rightarrow Y$	-0,574 < 2,10982	0,574 > 0,05

Table 7. Hypothesis Test Results
Source: Processed secondary data (2025)

The results of the hypothesis testing based on Table 4.15 are as follows:

a. Effect of Firm Size (X1) on Firm Value (Y):
The calculated t-value is 1.727, which is less than the t-table value of 2.10982, and the significance value is 0.103, which is greater than 0.05. Therefore, H_0 is accepted and H_1 is rejected. This indicates that firm size does not have a significant effect on firm value.

b. Effect of Leverage (X2) on Firm Value (Y):
The calculated t-value is -2.929, which is greater than the t-table value of 2.10982, and the significance value is 0.010, which is less than 0.05. Hence, H_0 is rejected and H_1 is accepted. This means that leverage has a negative and significant effect on firm value.

c. Effect of Liquidity (X3) on Firm Value (Y):
The calculated t-value is 2.320, which is greater than the t-table value of 2.10982, and the significance value is 0.034, which is less than 0.05. As a result, H_0 is rejected and H_1 is accepted. This indicates that liquidity has a positive and significant effect on firm value.

d. Effect of Company Size (X1) on Profitability (Z):
The t-value is 1.087, which is less than the t-table value of 2.10982, and the significance value is 0.292, which is greater than 0.05. Therefore, H_0 is accepted and H_1 is rejected, meaning company size does not have a significant effect on profitability.

e. Effect of Leverage (X2) on Profitability (Z):

The t-value is -1.959, which is less than the t-table value of 2.10982, and the significance value is 0.067, which is greater than 0.05. Thus, H_0 is accepted and H_1 is rejected, indicating that leverage does not have a significant effect on profitability.

f. Effect of Liquidity (X3) on Profitability (Z):
The t-value is 0.541, which is less than the t-table value of 2.10982, and the significance value is 0.596, which is greater than 0.05. This means H_0 is accepted and H_1 is rejected, so liquidity does not have a significant effect on profitability.

g. Effect of Profitability(Z) on Firm Value (Y):
The t-value is -0.574, which is less than the t-table value of 2.10982, and the significance value is 0.574, which is greater than 0.05. Therefore, H_0 is accepted and H_1 is rejected, meaning profitability does not significantly affect firm value.

The interpretation of this result are:

1. The Effect of Firm Size on Firm Value
The findings of this study reveal that firm size, measured by the natural logarithm of total assets, does not have a significant effect on firm value. This implies that possessing large assets does not necessarily translate to higher firm value from an investor's perspective. In some cases, firms with substantial assets still show a low Price to Book Value (PBV), while smaller companies report higher PBVs, suggesting that company size is not a key factor in determining firm value. Larger companies may struggle with operational inefficiencies and slower decision-making processes, which can negatively impact performance. Additionally, overinvestment in large-scale firms might diminish shareholder value. These findings challenge the signaling theory, which posits that larger company size should signal strength and stability to the market. This result is in line with studies by A'yun et al. (2022), Santoso & Junaeni (2022), and Apriantini et al. (2022), which also found no significant relationship between company size and firm value. However, it contradicts the findings of Anggita (2022), who reported a significant positive effect of company size on firm value.
2. The Effect of Leverage on Firm Value
The findings of this study indicate that leverage has a negative and significant effect on firm value. In other words, as the debt-to-assets ratio increases, the value of the company tends to decline. High levels of debt are often interpreted by the market as a sign of financial risk, leading to reduced investor confidence. This is because excessive reliance on debt increases interest expenses and limits the company's financial flexibility, particularly in areas like innovation and strategic development. In the digital finance sector, where market volatility is high, the risks associated with high leverage are even more pronounced. According to signaling theory, a company's capital structure sends signals to investors about its future prospects. However, when leverage becomes excessive, it sends a negative signal, implying financial instability and potential difficulty in meeting obligations. As a result, investors may view such companies as less attractive, due to concerns over long-term sustainability. These findings support the view that the capital structure is an important consideration in investor decision-making. The results are also consistent with previous studies by Apriantini et al. (2022), Kurniawan & Ardiansyah (2020), and Febriani (2020), all of which concluded that leverage significantly affects firm value.
3. The Effect of Liquidity on Firm Value
This study finds that liquidity has a positive and significant impact on firm value, as measured by the Loan to Deposit Ratio (LDR). A higher liquidity level suggests that the company is better positioned to meet its short-term obligations and maintain operational continuity, which in turn increases investor confidence and enhances the company's market value. In the context of digital banking, strong liquidity reflects financial flexibility and resilience in facing market fluctuations. A high LDR also suggests that the bank is effective in allocating its funds into productive lending, which contributes to income generation. This performance is perceived positively by the market, indicating efficient financial management and operational soundness. Furthermore, optimal liquidity strengthens cash flow stability and sends a positive signal to investors, aligning with the

signaling theory, which asserts that financial indicators can shape market perceptions. These results are consistent with prior research by Anggita (2022), Farizki et al. (2021), and Dwipa et al. (2020), all of whom concluded that liquidity significantly influences firm value.

4. The Effect of Firm Size on Profitability
   The findings of this study indicate that firm size does not have a significant influence on profitability, as measured by Return on Assets (ROA). In other words, the amount of total assets owned by a company does not necessarily translate into its ability to generate profits. Asset expansion does not always correspond with improvements in operational efficiency. Larger firms often encounter structural challenges such as bureaucratic complexities, slower decision-making processes, and inefficient asset utilization, which can negatively impact profitability. As a result, growth in company size may indirectly hinder rather than enhance profitability. These results contradict signaling theory, which suggests that larger company size signals stability and strong performance potential. However, in practice, the market does not automatically associate larger firms with greater efficiency or higher profits. Therefore, the hypothesis that company size positively affects profitability is not supported. This conclusion aligns with the research of A'yun et al. (2022), who also found that company size does not significantly affect profitability.
5. The Effect of Leverage on Profitability
   This study finds that leverage does not significantly influence profitability. A high debt ratio does not necessarily enhance a company's ability to generate profit. In the context of technology-driven firms such as digital banks, leverage is often utilized to support expansion efforts. However, this does not automatically translate into improved profitability. In digital banking, profitability is more closely linked to innovation in services and market penetration than to the company's capital structure. According to signaling theory, debt usage can be a positive indicator of a firm's growth potential. Yet, in this study, that positive signal was not validated. The use of debt has not been efficient in driving profits, with high interest expenses and reduced financial flexibility being key challenges. As a result, investors may not respond favorably to high-leverage firms, especially when such leverage is not accompanied by performance improvements. These findings suggest that in digital banking companies, leverage is not an effective tool for enhancing profitability, and does not function as a strong positive signal to the market.
6. The Effect of Liquidity on Profitability
   The findings of this study indicate that liquidity does not significantly affect profitability. A high Loan-to-Deposit Ratio (LDR) does not automatically signify operational efficiency in generating profit—particularly when it is not supported by strong credit risk management. Conversely, a low LDR might suggest underutilization of available funds, which could also hinder profitability. An increase in credit disbursement does not always correlate with a rise in profitability, especially if loan quality is compromised. According to signaling theory, high liquidity should reflect a company's financial strength and stability, offering a positive signal to the market. However, this study reveals that liquidity is not perceived as a strong indicator of profitability in the digital banking sector. Instead, investors appear to prioritize factors such as operational efficiency, product innovation, and user adoption of digital services over liquidity metrics. As such, liquidity is not considered a key determinant in evaluating profit performance. These results are consistent with Febriani (2020), who also found no significant relationship between liquidity and profitability.
7. The Effect of Profitability on Firm Value
   The results of this study indicate that profitability does not have a significant impact on firm value. This suggests that the company's ability to generate profit from its assets does not necessarily translate into higher market valuation. In other words, high profitability does not always lead to increased investor confidence or firm value. According to signaling theory, profitability is expected to serve as a positive signal of a firm's financial health. However, in this case, Return on Assets (ROA) does not appear to be a sufficiently strong metric to influence investor perception. Market participants may prioritize other elements such as future business prospects, dividend distribution policies, and broader macroeconomic conditions over short-term profitability figures. In the

context of digital banking, factors like operational scalability, innovation, and long-term growth strategies are likely more influential in determining firm value than profitability alone. As a result, strong profits do not automatically lead to a rise in market valuation. These findings are consistent with Farizki et al. (2021), who also found that profitability does not significantly affect firm value.

8. The Effect of Firm Size on Firm Value through Profitability
   The findings indicate that profitability does not serve as a mediating variable between company size and firm value, leading to the rejection of the proposed hypothesis. In other words, larger companies do not necessarily enhance their firm value through increased profitability. According to signaling theory, large firm size is expected to convey positive signals to the market—such as operational stability, robust resources, and strong growth potential. However, this study finds that company size alone does not generate a signal strong enough to build investor confidence via profitability. The market appears to place less emphasis on firm size as an indirect driver of firm value through profit generation. In the context of digital banking, these results suggest that asset expansion and company scale are not automatically linked to improved financial outcomes. Thus, firm size does not significantly influence firm value through profitability, supporting the conclusion that profitability does not mediate this relationship.
9. The Effect of Leverage on Firm Value through Profitability
   The results of this study reveal that profitability does not function as a mediating variable between leverage and firm value. This means that variations in a company's debt levels do not significantly impact firm value through changes in profitability. In this context, the use of debt has not been managed effectively enough to drive profit growth. According to signaling theory, leverage is expected to send positive signals regarding management's confidence in future performance. However, the findings suggest that these signals are not interpreted by the market as indicators of increased profitability. As a result, investors appear to view leverage as a less critical factor in determining a company's ability to generate profits. Therefore, profitability fails to mediate the effect of leverage on firm value. This outcome supports the conclusion that capital structure decisions, particularly those involving debt, are not yet functioning as effective strategies to enhance firm value via profitability.
10. The Effect of Liquidity on Firm Value through Profitability
    This study indicates that profitability does not mediate the relationship between liquidity and firm value. In other words, a company's ability to meet its short-term obligations does not significantly contribute to increasing firm value via profitability. These results imply that being a highly liquid company does not automatically equate to being more profitable or having greater market valuation. According to signaling theory perspective, strong liquidity should signal financial stability and efficient resource management. However, the market appears not to interpret this signal as indicative of increased profitability. Consequently, profitability does not act as a bridge between liquidity and firm value. Instead, investors seem to place greater emphasis on factors such as operational performance, innovation, and long-term growth prospects rather than liquidity alone. Therefore, liquidity has not proven to be a strong determinant in enhancing firm value through the profitability pathway.

4. Conclusion

The conclusion of this study are: 1) The study reveals that firm size does not significantly influence either firm value or profitability. This suggests that the scale of assets or business operations in digital banks does not inherently lead to improved performance or higher market valuation. Therefore, instead of focusing solely on expanding assets, companies should prioritize operational efficiency, investment in digital technology, and enhancing customer service to improve overall performance. 2) The findings show that leverage negatively impacts firm value, indicating that high levels of debt can reduce investor confidence. As such, firms should adopt more prudent funding strategies, maintain moderate debt ratios, and explore internal or balanced financing options. Conversely, liquidity positively affects firm value, suggesting that effective short-term financial

management is a key indicator of company stability and value. This underscores the importance of maintaining a healthy balance between customer deposits and lending to uphold investor trust in digital banking institutions. 3) The study also finds that profitability neither directly affects firm value nor acts as a mediating variable between company size, leverage, and liquidity on firm value. This implies that the profits earned by digital banks are not the primary factor investors use to assess their market value. Instead, investors may prioritize other indicators such as long-term growth potential, innovation, and risk management. 4) For the non-financial factors—such as technological innovation, corporate reputation, and adaptability to market dynamics—are increasingly influencing investor perceptions. Therefore, companies, particularly in the digital banking sector, should formulate long-term strategies focused on sustainable growth, accountability, and competitive differentiation. Enhancing firm value requires more than just asset expansion, leverage control, or liquidity management. It must also be supported by improvements in service quality, operational efficiency, and digital capability. Digital banks are advised to exercise greater prudence in managing leverage, ensuring healthy liquidity levels, and aligning their digital transformation efforts with evolving market demands. A balanced approach to capital structure and innovation is essential to building investor trust and long-term value. For investors, it is important to adopt a holistic view in performance evaluation, considering not only profitability or firm size but also financial indicators that reflect long-term stability and risk, such as capital adequacy, liquidity resilience, and earnings consistency. The findings of this study can provide valuable input in developing supervision frameworks for digital banks. This includes policies related to capital structure, risk management, and transparency in financial reporting, aimed at ensuring the soundness and accountability of institutions operating in the digital financial space. Future researchers are encouraged to explore additional variables that may influence firm value, such as ownership structure, business risk, quality of financial reporting, and tax policy. Including these dimensions would provide a richer understanding of value creation in digital banking and contribute to the growing body of literature in financial management and fintech.

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