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Liquidity and Leverage Impact on Islamic Bank Value: A Test on Multigroup Moderated Mediation Effect

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Abstract

Firm value is a critical indicator for evaluating a company's performance and future prospects in the market. Factors such as liquidity, leverage, and dividend policy can influence firm value, particularly in the Islamic banking sector, which is characterized by distinct financial management principles. This study aims to examine the impact of liquidity and leverage on firm value, with profitability serving as a mediating variable and dividend policy as a moderating variable. The analysis focuses on Islamic Commercial Banks in Indonesia, Pakistan, and Bangladesh over the period 2019–2023. A quantitative research approach is employed, utilizing Moderated Regression Analysis (MRA) and Path Analysis. The sample comprises financial statement data from Islamic Commercial Banks in the three countries. The independent variables are liquidity, measured by the Current Ratio (CR), and leverage, measured by the Debt to Equity Ratio (DER). The dependent variable is firm value, proxied by the Price to Book Value (PBV). Profitability, measured by Return on Assets (ROA), functions as the mediating variable, while the Dividend Payout Ratio (DPR) represents the moderating variable. he findings reveal that both liquidity and profitability have a significant positive effect on firm value, while leverage exerts a significant negative effect. Profitability mediates the relationship between leverage and firm value but does not mediate the relationship between liquidity and firm value. Additionally, dividend policy does not moderate the effect of either liquidity or leverage on firm value. These results suggest that Islamic bank management should prioritize enhancing liquidity and profitability to improve firm value, while also exercising caution in managing leverage due to its adverse impact. Furthermore, as dividend policy does not function effectively as a moderating mechanism, strategies aimed at increasing firm value should focus more on strengthening fundamental financial performance.

Keywords: Dividend Policy; Firm Value; Leverage; Liquidity; Profitability

Abstrak

Nilai perusahaan merupakan indikator penting dalam menilai kinerja dan prospek perusahaan di pasar. Faktor-faktor seperti likuiditas, leverage, dan kebijakan dividen dapat mempengaruhi nilai perusahaan, terutama pada sektor perbankan syariah yang memiliki karakteristik unik dalam pengelolaan keuangan. Penelitian ini bertujuan untuk menganalisis pengaruh likuiditas dan leverage

terhadap nilai perusahaan, dengan profitabilitas sebagai variabel mediasi dan kebijakan dividen sebagai variabel moderasi, dengan fokus pada Bank Umum Syariah di tiga negara pada tahun 2019-2023. Penelitian ini menggunakan pendekatan kuantitatif dengan menggunakan metode Moderated Regression Analysis (MRA) dan Path Analysis. Sampel terdiri dari laporan keuangan Bank Umum Syariah di Indonesia, Pakistan, dan Bangladesh. Variabel independen adalah likuiditas (Current Ratio/CR) dan leverage (Debt to Equity Ratio/DER), dan variabel dependen adalah nilai perusahaan (Price to Book Value/PBV) serta profitabilitas (Return on Assets/ROA) sebagai variabel mediasi, dan kebijakan dividen (Dividend Payout Ratio/DPR) adalah variabel moderasi. Hasil penelitian menunjukkan bahwa likuiditas dan profitabilitas secara signifikan mempengaruhi nilai perusahaan, sedangkan leverage memiliki pengaruh negatif yang signifikan. Profitabilitas memediasi hubungan antara leverage dan nilai perusahaan tetapi tidak memediasi hubungan antara likuiditas dan nilai perusahaan. Lebih lanjut, kebijakan dividen tidak memoderasi pengaruh likuiditas maupun leverage terhadap nilai perusahaan. Hasil penelitian ini mengimplikasikan bahwa manajemen bank syariah perlu fokus pada peningkatan likuiditas dan profitabilitas untuk meningkatkan nilai perusahaan, serta mengelola leverage dengan hati-hati karena memiliki dampak negatif. Selain itu, kebijakan dividen terbukti tidak efektif sebagai alat moderasi, sehingga strategi untuk meningkatkan nilai perusahaan harus lebih fokus pada kinerja fundamental.

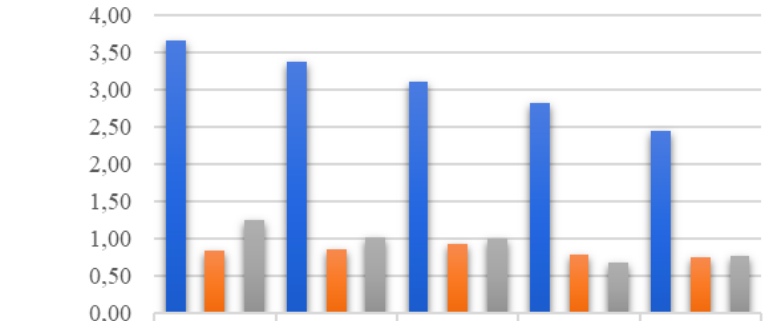
Kata kunci: *Kebijakan Dividen; Nilai Perusahaan; Leverage; Likuiditas; Profitabilitas*

INTRODUCTION

Islamic banking plays a vital role in maintaining financial stability and fostering economic growth, particularly in countries with Muslim-majority populations. It operates in accordance with Sharia principles, which prohibit riba (usury), gharar (uncertainty), and maysir (gambling), thereby offering a more ethical and equitable alternative to conventional financial systems (Putranto et al., 2022). One of the primary objectives of any company, including Islamic banks, is to enhance firm value, as a high firm value reflects strong business prospects and attracts greater investor interest (Maulana & Wati, 2019). Firm value also reflects the market's perception of a bank's stability and growth potential, influencing its investment appeal and the sustainability of its operations. An increase in firm value signifies strong stakeholder confidence, which in turn enhances competitiveness and supports the global expansion of the Islamic financial industry (Jihadi et al., 2021b).

Among the two primary approaches to measuring firm value, the Price-to-Book Value (PBV) ratio is more widely utilized, as it captures the market's assessment of a company's equity value relative to its book value (Hermuningsih & Wardani, 2009). The Price-to-Book Value (PBV) ratio is a fundamental indicator for evaluating whether a stock is traded above or below its intrinsic value. It serves as a key reference point for investors in assessing a company's long-term prospects and profitability. While the optimal PBV threshold may vary across industries, a PBV greater than one generally indicates that the market perceives the company as having positive growth potential (Brigham & Houston, 2018). Figure 1 illustrates the trend in the average PBV of Islamic banks across three countries—Indonesia, Bangladesh, and Pakistan—during the 2019–2023 period. The data reveal a notable decline, indicating a weakening investor perception of the value of Islamic banks in these markets. This

downward trend may be attributed to several factors, including unfavorable macroeconomic conditions, financial market volatility, and regulatory changes affecting the Islamic banking sector (Arif & Yati, 2021). The downward trend in PBV may also suggest that the fundamental performance of Islamic banks has not sufficiently convinced investors of their long-term growth prospects.



	2019	2020	2021	2022	2023
Indonesia	3,66	3,37	3,11	2,82	2,45
Bangladesh	0,84	0,85	0,92	0,78	0,75
Pakistan	1,25	1,01	1,00	0,68	0,77

Figure 1. Kurva IS Trend of Average PBV Movement of Islamic Banking in 3 Countries
Source: Data process, 2025

Liquidity is a critical determinant of firm value, especially in the banking sector, which is highly dependent on investor and customer confidence. It reflects a bank's ability to meet short-term obligations and serves as a key indicator of financial stability, thereby shaping market perceptions of firm value (Antari et al., 2022). An optimal level of liquidity can enhance firm value by ensuring smooth operational performance, sustaining shareholder confidence, and facilitating business expansion. However, excessive liquidity may indicate inefficient asset utilization and lead to lower potential returns for investors, whereas insufficient liquidity heightens the risk of default and undermines market confidence in the firm (Yusuf et al, 2022). Therefore, banks must maintain an optimal level of liquidity to ensure business sustainability while preserving or enhancing firm value. This study uses the Current Ratio (CR) as the primary measure of liquidity, which reflects the proportion of a bank's current assets to its short-term liabilities.

The Current Ratio (CR) offers a more comprehensive measure of a company's liquidity compared to other indicators, as it includes all current assets, not just cash or highly liquid assets (Brigham & Houston, 2018). Previous studies have produced mixed findings on the impact of the Current Ratio (CR) on firm value. Research by Jihadi et al., (2021); Antari et al., (2022) ound that liquidity has a significant positive effect on firm value. In contrast, studies by Febriani, (2020); Herdiani et al. (2021), reported that liquidity ratios have a significant negative effect on firm value. These inconsistent findings underscore the need for further investigation into the relationship between liquidity and firm value.

Another factor that may influence firm value is the leverage ratio. Leverage reflects a company's ability to manage assets financed through a combination of short-term and long-term debt (Copeland et al., 2005). According to (Supriati, 2018), leverage represents the proportion of a company's total debt to its equity used to finance operational activities. This ratio illustrates the extent to which a company relies on debt relative to equity in its capital structure. A high leverage ratio indicates a significant dependence on debt, which may pose risks to the company's financial health if it becomes unable to meet its short- or long-term debt obligations (Hutabarat, 2024). According to the Trade-Off Theory (Brealey et al., 2023) firms aim to balance the benefits of debt—such as tax shields—against the potential costs associated with financial distress and agency problems. The theory posits the existence of an optimal level of debt at which the tax advantages are exactly offset by the expected costs of bankruptcy, thereby resulting in the most efficient capital structure and maximizing firm value.

The Debt to Equity Ratio (DER) is considered a more appropriate measure of leverage than alternative indicators, as it directly reflects the proportion of debt relative to equity, thereby indicating the extent of a company's reliance on external financing (Jihadi et al., 2021). Studies conducted by Jihadi et al., (2021); Limesta & Wibowo (2020), found that leverage, as measured by the Debt to Equity Ratio (DER), has a significant positive effect on firm value. However, these findings contrast with those of Febriani, (2020); Herdiani et al. (2021), who reported a significant negative relationship between leverage and firm value. Similarly, Anggreini & Oktaviana (2022), found that DER has no significant effect on firm value in the context of Islamic banking.

The novelty of this study lies in its examination of profitability as a mediating variable and dividend policy as a moderating variable in the relationship between liquidity and leverage on firm value. This approach is intended to address the inconsistencies observed in previous studies and to provide a more comprehensive understanding of the mechanisms that influence firm value, particularly within the context of Islamic banking.

Given the declining trend in the firm value of Islamic banks and the inconsistencies identified in previous research, further investigation is warranted. This study adopts a novel approach by incorporating dividend policy as a moderating variable, based on the premise that dividend policy serves as a signal of management's confidence in the company's financial performance (Aldi et al., 2022) In this context, dividend policy may either strengthen or weaken the influence of liquidity and leverage on firm value, depending on how investors interpret profit distribution as a signal of stability and long-term growth prospects. Furthermore, this study introduces profitability as a mediating variable to examine its role in transmitting the effects of liquidity and leverage on firm value. Profitability is selected

based on its potential to serve as an intermediary mechanism that reflects the outcomes of efficient asset management and capital structure decisions. This integrated approach is expected to yield a more comprehensive understanding of how liquidity and leverage affect the firm value of Islamic banks, with dividend policy acting as a moderator and profitability as a mediator. Ultimately, the findings aim to provide strategic insights for bank managers and investors to enhance competitiveness and ensure long-term financial stability.

LITERATURE REVIEW

Signalling Theory

Signal theory, first introduced by Spence (1978), explains that the sender of information (i.e., the information owner) conveys signals—typically in the form of data—that reflect the condition of the company. These signals assist the information recipient (i.e., the investor) in making informed decisions.

Brigham & Houston (2018), suggest that signaling theory is closely linked to management's perspective on the company's future growth potential, which can influence the response of prospective investors. Information disclosed by the company is analyzed and interpreted by investors to determine whether it constitutes a positive signal (good news) or a negative signal (bad news) (Hartono, 2017).

According to Hartono (2017), signals conveyed by a company may include actions such as debt issuance, which should align with the company's capacity to meet its financial obligations. Within the framework of signaling theory, business risk is also a critical consideration. An increase in business risk is generally perceived negatively by potential investors, potentially diminishing their willingness to invest. In contrast, high investment opportunities are interpreted as positive signals that enhance investor perceptions of the company. A higher level of a company's Investment Opportunity Set (IOS) indicates greater potential to improve financial performance and increase firm value in the future.

Trade of Theory

The Trade-Off Theory is an extension of the Modigliani and Miller (MM) framework introduced in 1963. This theory emphasizes the importance of balancing the benefits and costs associated with debt in a company's capital structure. According to (Brealey et al., 2023), a company's optimal debt ratio may vary depending on its specific circumstances. The theory posits that firm value can be maximized through an optimal combination of debt and equity. It further suggests that a firm may increase its use of debt as long as the associated benefits—such as tax shields—outweigh the potential costs, including financial distress and agency problems.

Thus, an increase in the proportion of debt can enhance the income stream available to shareholders, potentially leading to a rise in the company's stock price

(Mafiejor, 2021). However, this positive effect on firm value or share price remains valid only up to a certain threshold, commonly referred to as the optimal point. Beyond this point, the costs associated with additional debt—such as financial distress and increased risk—may outweigh the benefits, thereby reducing firm value.

Firm Value

Firm value reflects a company's overall success and is closely linked to its financial condition. According to Thaib & Dewantoro (2017), firm value is influenced by various factors, with stock price being a primary determinant. Firm value serves to communicate the company's condition to external stakeholders—such as shareholders, the general public, and potential investors—primarily through stock price indicators.

A high share price can serve as a key consideration for potential investors in evaluating the attractiveness of investing in a company. A higher return to investors typically reflects a strong share price performance, indicating that the company is in a favorable financial position. Consequently, the company's objective of maximizing shareholder wealth can be achieved through the enhancement of firm value (Sulistiyo & Yuliana, 2019).

Liquidity

According to Khasmir (2016), companies may encounter various factors that hinder their ability to meet short-term debt obligations as they mature. According to Fahmi (2018), liquidity refers to a company's ability to meet its short-term obligations in a timely manner. According to Sholihin & Ratmono (2016), liquidity is a ratio that measures a company's ability to fulfill its short-term financial obligations by relating the amount of cash and other current assets. Similarly, Hasanudin (2018), states that the liquidity ratio reflects a company's capacity to meet its short-term liabilities.

It can be concluded that the liquidity ratio reflects a company's ability to meet its short-term obligations. This ratio serves as a critical indicator of financial health, as it demonstrates how effectively current assets can be utilized to settle liabilities maturing in the near future.

Leverage

Leverage is a financial ratio that reflects a company's ability to manage assets financed through both short- and long-term debt (Copeland et al., 2005). Supriati (2018), defines leverage as the ratio of total debt to total equity used to finance operational activities. Similarly, Hayat et al. (2018), describe leverage as a measure indicating the amount of debt a company carries, while Khasmir (2016), explains it as a ratio that assesses the extent to which a company's assets are financed by debt. A higher leverage ratio indicates a greater reliance on external financing, which in turn increases the risk of the company failing to meet its long-term debt obligations (Brigham & Houston, 2018a).

Leverage provides insight into a company's ability to utilize assets or funds with fixed costs to enhance returns for shareholders. The leverage ratio also indicates the proportion of a company's financing that is derived from debt or other external sources, as well as the extent to which the company's financial capacity is supported by its own capital (Sinaga et al., 2019).

Profitability

Khasmir (2016), defines profitability as a ratio used to measure a company's ability to generate profits, providing an indication of the quality and effectiveness of its management. Profitability is a key financial ratio employed to evaluate a company's capacity to generate earnings from sales, investment activities, total assets, and long-term liabilities over a given period (Febriani, 2020b; Hidayat et al., 2025). As one of the most important indicators of financial performance, profitability reflects the extent to which a company can generate income from its core business operations.

Dividend Policy

Dividend policy refers to a company's decision regarding whether profits earned at the end of a financial period will be distributed to shareholders as dividends or retained to strengthen capital and finance future investments. According to dividend signaling theory, dividend payments are interpreted by the market as a positive signal of the company's future performance prospects (Kim et al., 2021). Dividend policy refers to a managerial decision regarding the allocation of the company's period-end profits—whether to distribute them as dividends to shareholders or retain them as earnings to strengthen capital and support future investments (Antari et al., 2022).

Dividend policy is one of the key decisions in corporate financial management, as it concerns the distribution of profits to shareholders. From an Islamic perspective, dividend policy must adhere to Sharia principles, which emphasize fairness, transparency, and the avoidance of prohibited elements such as riba (usury) and *gharar* (excessive uncertainty). Therefore, in formulating dividend policies, companies are expected to ensure that the distributed profits are free from elements that violate Islamic law, while also considering the impact of such distributions on the company's long-term sustainability and the broader interests of society.

RESEARCH METHOD

This study adopts an explanatory research method to describe the positions of the examined variables and to explain the nature of their interactions (Sugiyono, 2017). The independent variables include liquidity, leverage, profitability, and dividend policy, while the dependent variable is the firm value of Islamic banks. The operational definitions and measurement methods for each variable are presented

in Table 1. The study utilizes secondary data derived from the financial statements of 15 Islamic commercial banks across three countries—Indonesia, Bangladesh, and Pakistan—covering the period from 2019 to 2023. These countries were selected due to their predominantly Muslim populations, which drive strong demand for Islamic banking services (Islamic Financial Services Board, 2023). In addition, their large population sizes contribute to the sector's expansion by broadening the customer base and increasing investment opportunities (Yudhira, 2023).

The population of this study comprises all Islamic commercial banks registered in Indonesia, Bangladesh, and Pakistan during the 2019–2023 period. A total of 15 banks were selected as the research sample using purposive sampling, based on the following criteria: (1) the availability of complete financial statements and (2) the presence of complete data related to the variables examined in this study. This study employs a quantitative approach using panel data regression to analyze the relationships among liquidity, leverage, dividend policy, profitability, and firm value. Panel data regression is selected for its capacity to more accurately capture the dynamics of these variables across both time and entities, thereby improving the robustness and reliability of the analysis.

The analysis is conducted using R software, which provides a wide range of statistical packages—such as PLM—for estimating panel data regression models. Model selection tests are not performed, as the choice of model is guided by theoretical considerations and the characteristics of the data. Based on existing literature, the fixed effects model is deemed more appropriate, as it accounts for individual heterogeneity and controls for unobserved, time-invariant variables that may bias the results (Wooldridge, 2010). Additionally, the PLM package in R facilitates the direct estimation of the specified model without the need for additional model selection procedures, thereby enhancing the efficiency of the analytical process (Croissant & Millo, 2008). Moderating effects are tested using Moderated Regression Analysis (MRA), with a p-value ≤ 0.05 indicating a statistically significant moderating effect (Baharuddin et al, 2023). Mediating effects are examined using path analysis and the Sobel test to evaluate the significance of profitability's role as a mediating variable (Rusydi et al,. 2024).

Table 1. Operational definition of variables

Variable	Proxy	Symbol	Measurement
Firm Value	Price to Book Value	PBV	(Share Price)/(Book Value per Share) x 100%
Liquidity	Current Ratio	CR	(Current asset)/(Current liability) x100%
Leverage	Debt to Equity Ratio	DER	(Total Debt)/(Total Equity) x 100%
Dividend policy	Dividend Payout Ratio	DPR	(Dividend per Share)/(Net EPS) x 100%
Profitability	Return on Asset	ROA	(Net Profit)/(Total Assets) x 100%

Liquidity is a critical factor that reflects a company's ability to meet its short-term obligations and maintain financial stability. According to Signaling Theory, a high level of liquidity sends a positive signal to investors about the firm's financial health, thereby enhancing market confidence and potentially increasing firm value (Spence, 1978). The Current Ratio (CR), which measures the ratio of current assets to current liabilities, is commonly used as a proxy for liquidity (Kanakriyah, 2020). Jihadi et al. (2021), concluded that higher liquidity enhances market perceptions, as it suggests the company is capable of sustaining operational stability. This conclusion is further supported by the findings of Antari et al. (2022); Yanti & Darmayanti (2019); Saputra & Kusuma (2025), which demonstrate a significant positive relationship between liquidity and firm value.

H1: Liquidity has a positive effect on firm value.

Leverage plays a critical role in shaping a firm's capital structure and influencing its value. According to the Trade-Off Theory, the optimal use of leverage can enhance firm value by providing tax advantages through interest deductibility (tax shields). However, excessive reliance on debt increases the risk of financial distress and potential bankruptcy, which can ultimately reduce firm value (Brealey et al., 2023). The Debt-to-Equity Ratio (DER) serves as a proxy for leverage by measuring the proportion of a company's debt relative to its equity. A balanced DER indicates effective debt management and a sound capital structure (Brigham & Houston, 2018a). Empirical studies by Jihadi et al. (2021); Limesta & Wibowo (2020); Pradanimas & Sucipto (2022); Sutama & Lisa (2018), found that leverage has a significant positive effect on firm value, indicating that the judicious use of debt can contribute to improving a firm's market performance and investor confidence.

H2: Leverage has a positive effect on firm value.

Profitability is a key indicator for evaluating a company's financial performance and plays a vital role in enhancing firm value. According to Signaling Theory, a high level of profitability sends a positive signal to investors regarding the company's ability to generate sustainable earnings, thereby increasing market confidence and contributing to higher firm value (Spence, 1978). Profitability, typically measured by indicators such as Return on Assets (ROA), reflects the efficiency with which a company utilizes its assets to generate income (Brigham & Houston, 2018a). Empirical studies by Febriana & Anismadiyah (2024); Halawa et al. (2024); Shoumi & Wardana (2024); Suffah & Riduwan (2016); Hidayat et al. (2025), consistently show that profitability has a significant positive effect on firm value.

H3: Profitability has a positive effect on firm value.

Liquidity reflects a company's ability to meet its short-term obligations, thereby supporting operational stability and enabling the pursuit of investment opportunities. High liquidity provides financial flexibility, allowing firms to capitalize

on profitable ventures, which in turn can enhance profitability. Strong profitability sends a positive signal to investors regarding the company's financial health and future growth prospects, potentially leading to an increase in firm value (Khasmir, 2016). Therefore, well-managed liquidity—channeled through improved profitability—may contribute to the enhancement of firm value.

H4: Profitability mediates the effect of liquidity on firm value.

Leverage reflects the proportion of debt within a company's capital structure and enables the firm to finance expansion and investment activities aimed at increasing profits. When optimally managed, leverage can enhance profitability by allowing firms to capitalize on growth opportunities. However, excessive leverage introduces financial risk, which can undermine overall performance. Effective leverage management increases the likelihood of higher earnings, signaling to investors that the company is utilizing debt productively. Improved profitability, in turn, attracts investor interest, strengthens market confidence, and positively influences firm value (Kanakriyah, 2020).

H5: Profitability mediates the effect of leverage on firm value.

Liquidity reflects a firm's ability to meet its short-term obligations using current assets (Kanakriyah, 2020). High liquidity enables firms to support ongoing operations and maintain consistent dividend distributions (Brigham & Houston, 2018). According to Signaling Theory, a stable dividend policy serves as a positive signal of a company's financial health and future prospects (Spence, 1978). Firms with strong liquidity are more likely to uphold consistent dividend policies, which can boost investor confidence and, in turn, enhance firm value (Nurhidayati et al., 2021).

H6: Dividend policy moderates the effect of liquidity on firm value.

Leverage refers to the use of debt in a company's capital structure to finance expansion and investment activities. While it can amplify returns, it also increases financial risk due to the obligation to repay debt. Dividend policy, which involves the decision to distribute earnings to shareholders or retain them for reinvestment, plays a critical role in shaping investor perceptions. According to Signaling Theory, a consistent dividend policy conveys positive expectations regarding the firm's financial stability and future prospects (Spence, 1978). Firms with high leverage that are still able to distribute dividends signal effective debt management, thereby enhancing investor confidence and contributing to increased firm value (Brigham & Houston, 2018).

H7: Dividend policy moderates the effect of leverage on firm value.

The conceptual framework of this study includes two independent variables—liquidity and leverage—alongside one mediating variable (profitability) and one moderating variable (dividend policy). The dependent variable is firm value, examined within the context of Islamic commercial banks in three countries:

Indonesia, Bangladesh, and Pakistan, over the period 2019 to 2023. This framework is developed based on the research questions and is visually presented in Figure 2.

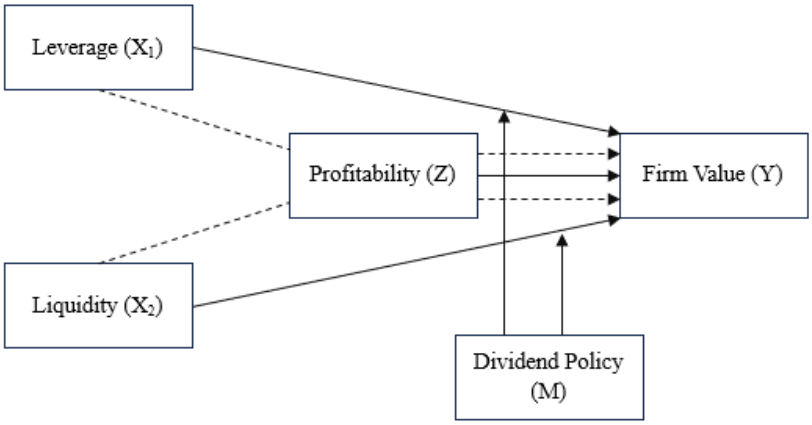


Figure 2. Research Hypothesis Model
Source: Data process, 2025

RESULTS AND DISCUSSION

Descriptive Statistics

Based on Table 2, the descriptive statistics reveal considerable variation in the values of each research variable. Firm Value (measured by Price-to-Book Value or PBV) has an average of 1.482, with the lowest value of 0.33 recorded by Habib Bank (2022) in Pakistan, and the highest value of 6.07 achieved by BTPN Syariah (2019) in Indonesia. Leverage (measured by Debt-to-Equity Ratio or DER) shows an average of 2.224, ranging from a minimum of 0.01 observed in BTPN Syariah (2021 and 2023) in Indonesia to a maximum of 11.31 recorded by United Bank LTD (2023) in Pakistan. Liquidity (measured by the Current Ratio or CR) has an average of 0.484, with a minimum of 0.10 recorded by Meezan Bank LTD (2022) in Pakistan, and a maximum of 5.17 also achieved by Meezan Bank LTD (2021) in Pakistan.

Furthermore, Profitability (measured by Return on Assets or ROA) has an average value of 1.741, with the lowest value of 0.35 recorded by Standard Bank PLC (2021) in Bangladesh, and the highest value of 10.21 achieved by BTPN Syariah (2019) in Indonesia. Dividend Policy (measured by the Dividend Payout Ratio or DPR) has an average of 0.477, ranging from a minimum of 0.00, observed in Habib Bank (2022) in Pakistan, to a maximum of 0.98 recorded by United Bank LTD (2023), also in Pakistan. These findings indicate substantial variation among Islamic banks across different countries in terms of firm value, leverage, liquidity, profitability, and dividend policy, reflecting diverse financial strategies and performance outcomes within the sector.

Hypotheses Testing Result

Based on the results of the partial t-test presented in Table 3, Liquidity (measured by CR) has a positive and significant effect on Firm Value (PBV), as

indicated by a t-value of 2.532, which exceeds the critical t-table value of 1.9939, and a p-value of 0.014 < 0.05, thereby supporting the acceptance of H1. Leverage (measured by DER) exhibits a significant negative effect on Firm Value, with a t-value of 2.316 and a p-value of 0.023 < 0.05, which leads to the rejection of H2 and acceptance of the null hypothesis (H0). Meanwhile, Profitability (measured by ROA) shows a positive and highly significant effect on Firm Value, with a t-value of 9.120 and a p-value of 0.000 < 0.05, thus confirming the acceptance of H3.

The results of the mediation analysis using the Sobel test, as presented in Table 5, show that Profitability (ROA) does not mediate the relationship between Liquidity (CR) and Firm Value (PBV), as indicated by a Sobel test statistic of 1.4969 and a p-value of 0.1344 > 0.05, leading to the rejection of H4. In contrast, Profitability successfully mediates the relationship between Leverage (DER) and Firm Value, with a Sobel test statistic of 3.7914 and a p-value of 0.0001 < 0.05, supporting the acceptance of H5.

The results of the Moderated Regression Analysis (MRA) reveal that Dividend Policy (measured by DPR) does not moderate the relationship between Liquidity (CR) and Firm Value (PBV), as indicated by a t-value of -0.538 and a p-value of 0.1935 > 0.05, leading to the rejection of H6. Similarly, Dividend Policy also does not moderate the relationship between Leverage (DER) and Firm Value, with a t-value of -0.328 and a p-value of 0.6508 > 0.05. Accordingly, H7 is also rejected.

Table 2. Descriptive statistics

Variable	Obs.	Mean	Std. dev.	Min	Max
Firm Value (PBV)	75	1.482	1.321	6.07	0.33
Liquidity (CR)	75	2.224	0.629	11.31	0.01
Leverage (DER)	75	0.484	2.001	5.17	0.10
Profitability (ROA)	75	1.741	0.189	10.21	0.35
Dividend Policy (DPR)	75	0.477	1.846	0.98	0.00

Source: Data process, 2025

Table 3. Regression Output

	Variable	Coefficient	t-*value*	p-*value*	Information
Model 1	Liquidity (CR) → ROA	0.1938	2.116	0.037*	Significant Positive
	Leverage (DER) → ROA	-0.7677	-7.870	0.000***	Significant Negative
Model 2	Liquidity (CR) → PBV	0.2061	2.532	0.014*	Significant Positive
	Leverage (DER) → PBV	-0.1935	-2.316	0.023*	Significant Negative

	Profitability (ROA) → PBV	0.6508	9.120	0.000***	Significant Positive

Note: Robust standard errors are shown in parentheses. *, **, and *** represent 10%, 5%, and 1% levels respectively

Table 4. Path Analysis Output

Path	Direct Effect	Indirect Effect	Total Effect
Liquidity (CR) → Profitability (ROA)	0.1938	-	-
Leverage (DER) → Profitability (ROA)	-0.7677	-	-
Liquidity (CR) → Firm Value (PBV)	0.2061	-	-
Leverage (DER) → Firm Value (PBV)	-0.1935	-	-
Profitabilitas (ROA) → Firm Value (PBV)	0.6508	-	-
Liquidity (CR) → Profitability (ROA) → Firm Value (PBV)	-	0.1261	0.3322
Leverage (DER) → Profitability (ROA) → Firm Value (PBV)	-	-0.1169	-0.3104

Source: Data process, 2025

Table 5. Sobel Test Output

Regression Model	Sobel Test	
Liquidity (CR) → Profitability (ROA) → Firm Value (PBV)	t-*value*	1.497
	p-*value*	0.134
Leverage (DER) → Profitability (ROA) → Firm Value (PBV)	t-*value*	3.791
	p-*value*	0.000***

Note: Robust standard errors are shown in parentheses. *, **, and *** represent 10%, 5%, and 1% levels respectively

Table 6. Moderated Regression Analysis Output

Path	Coefficient	t-*value*	p-*value*
Liquidity (CR)	0.3025	1.308	0.1938
Leverage (DER)	-0.7241	-2.907	0.0049**
Dividend Policy (DPR)	0.3678	2.351	0.0216*
Liquidity (CR)*Dividend Policy (DPR)	-0.1351	-0.538	0.1935
Leverage (DER)*Dividend Policy (DPR)	-0.0856	-0.328	0.6508

Note: Robust standard errors are shown in parentheses. *, **, and *** represent 10%, 5%, and 1% levels respectively

The Impact of Liquidity on Firm Value

Based on the results of the partial regression test presented in Table 3, liquidity, as measured by the Current Ratio (CR), has a significant positive effect on

firm value, as measured by the Price-to-Book Value (PBV). This finding is consistent with Signaling Theory, which suggests that firms with high liquidity levels send positive signals to investors regarding their financial stability, thereby enhancing market confidence and increasing firm valuation (Spence, 1978). These findings suggest that company management should prioritize effective liquidity management as a strategy to enhance firm value. Maintaining an optimal level of liquidity not only improves investor confidence but also mitigates financial risk. However, excessively high liquidity may signal inefficient fund utilization and missed opportunities for productive investment. The results of this study align with prior research by Jihadi et al. (2021); Antari et al. (2022); Zoraya et al. (2023); Saputra & Kusuma (2025), who reported a significant positive relationship between liquidity and firm value. Nonetheless, these findings contrast with those of , and a separate analysis by Antari et al., 2022), which found a negative or insignificant relationship.

The Impact of Leverage on Firm Value

Based on the results of the partial regression test presented in Table 3, leverage, as measured by the Debt-to-Equity Ratio (DER), has a significant negative effect on firm value, measured by the Price-to-Book Value (PBV). According to the Trade-Off Theory, the use of debt can enhance firm value by offering tax benefits (tax shields), but only up to an optimal point. Beyond this threshold, excessive leverage increases the likelihood of financial distress and bankruptcy, which ultimately reduces firm value (Brealey et al., 2023). This finding highlights the importance of careful capital structure management. While moderate debt levels can provide strategic financial benefits, overly high leverage may expose the firm to elevated financial risk and undermine investor confidence. The result is consistent with the findings of (Antari et al., 2022). However, it contrasts with the study by Nugroho et al. (2022), which reported a positive effect of leverage on firm value.

The Impact of Profitability on Firm Value

Based on the partial regression test results presented in Table 3, profitability, as measured by Return on Assets (ROA), exhibits a significant positive effect on firm value, as measured by the Price-to-Book Value (PBV). This finding is consistent with Signaling Theory, which posits that high profitability conveys a positive signal to investors regarding the firm's financial health, operational efficiency, and future growth prospects (Spence, 1978). This result suggests that management should prioritize enhancing profitability as a core strategy to improve firm value. Efforts should focus on optimizing operational efficiency, investing in product innovation, and formulating prudent profit distribution policies that positively shape investor perceptions. While high profitability contributes directly to firm value, it is also important to account for external factors such as market conditions and industry competition, which may influence overall performance. These findings are consistent with prior research by Bon & Hartoko (2022); Febriani (2020b); Jihad et al. (2023);

Nurhayati & Kartika (2020); Antari et al. (2022); Hidayat et al. (2025). However, they stand in contrast to the results reported by (Limesta & Wibowo, 2020; Syah & Aris, 2024), who found no significant effect of profitability on firm value.

The Role of Profitability in Mediating the Impact of Liquidity on Firm Value

The results of the mediation test using the Sobel Test, as presented in Table 5, indicate that profitability does not mediate the relationship between liquidity and firm value, with an indirect effect of 0.1261. While high liquidity may send a positive signal to investors, the findings suggest that increased liquidity does not necessarily translate into enhanced profitability that contributes meaningfully to firm value. Firms with high liquidity levels may opt to retain cash reserves or allocate resources toward non-productive uses such as debt repayment, rather than investing in activities that directly improve profitability. This outcome implies that although liquidity is an important indicator of financial health, its ability to improve firm value via profitability is conditional on managerial decisions regarding liquidity allocation, as well as prevailing market conditions (Fahmi, 2018; Syah & Aris, 2024). Consequently, H4 is rejected, confirming that profitability does not mediate the relationship between liquidity and firm value.

The Role of Profitability in Mediating the Impact of Leverage on Firm Value

The results of the mediation test using the Sobel Test, as shown in Table 5, indicate that profitability mediates the effect of leverage on firm value. This suggests that firms that utilize debt optimally can enhance their profitability, which in turn has a positive impact on firm value. An effective leverage policy, therefore, can act as a strategic financial tool, provided the company effectively manages interest expenses and financial risks. Firms that channel debt into productive investments, such as business expansion and innovation, are more likely to generate higher profits, thereby enhancing firm value (Brigham & Houston, 2018). The strength of profitability as a mediating variable in the leverage–firm value relationship is contingent on both internal factors (e.g., managerial policy, financial discipline) and external factors (e.g., macroeconomic conditions, interest rate levels) (Khasmir, 2016). Accordingly, leverage strategies should be carefully aligned with a firm's financial health and long-term business objectives to fully realize their potential in improving firm value.

The Role of Dividend Policy in Moderating the Impact of Liquidity on Firm Value

The results of the moderation test using the Moderated Regression Analysis (MRA) method, as shown in Table 6, indicate that dividend policy does not moderate the relationship between liquidity and firm value, as evidenced by a t-value of -0.538 (below the critical t-table value of 1.9939) and a p-value of 0.5926 > 0.05. Accordingly, H6 is rejected. The lack of a moderating effect may stem from internal factors, such as the firm's strategic decision to retain liquidity for future expansion or to buffer against economic uncertainty, rather than distributing it as dividends (Zoraya et al.,

2023). External factors, including market volatility and investor preferences, may also influence this outcome; in uncertain market environments, investors may prioritize a company's fundamentals and long-term performance over its dividend distribution policies (Antari et al., 2022). These findings suggest that dividend policy neither amplifies nor diminishes the effect of liquidity on firm value.

The Role of Dividend Policy in Moderating the Impact of Leverage on Firm Value

The results of the moderation test using the Moderated Regression Analysis (MRA) method, as presented in Table 6, indicate that dividend policy does not moderate the relationship between leverage and firm value, as shown by a t-value of -0.328 (below the critical t-table value of 1.9939) and a p-value of 0.7437 > 0.05. Consequently, H7 is rejected. The absence of a moderating effect may be attributed to internal factors, such as the company's strategic focus on debt repayment and financial risk management rather than the distribution of dividends (Brealey et al., 2023; Brigham & Houston, 2018). External factors, including investor preferences and macroeconomic conditions, may also contribute to this outcome; in volatile or uncertain markets, investors are more likely to emphasize a company's long-term growth potential over short-term returns through dividends (Rahmawati et al., 2023). These findings confirm that dividend policy does not enhance nor weaken the relationship between leverage and firm value.

Managerial Implications

This study is expected to offer strategic insights for companies in effectively managing their financial structure to enhance firm value. The findings highlight critical financial aspects that should be optimized. For instance, liquidity should be maintained at an optimal level—not solely as a cash reserve but also as a strategic resource that can be allocated to productive investments. Additionally, leverage must be managed prudently by balancing the benefits of debt financing with the risks of financial distress and potential bankruptcy. Profitability should be improved through operational efficiency, cost management, and innovation, as it serves as a key indicator of financial performance and growth potential from an investor's perspective. The results also indicate that dividend policy does not moderate the effect of liquidity and leverage on firm value, suggesting that firms should prioritize long-term growth strategies over short-term dividend distributions in order to enhance shareholder value sustainably.

CONCLUSION

The results of this study demonstrate that liquidity has a significant positive effect on firm value, aligning with Signaling Theory, which posits that high liquidity conveys a positive signal to investors about a company's financial stability. In contrast, leverage exhibits a significant negative effect on firm value, consistent with

the Trade-Off Theory, which suggests that excessive debt increases the risk of financial distress and bankruptcy. Profitability also has a significant favorable impact on firm value, as it reflects strong financial performance and promising growth prospects. Accordingly, management must strive to maintain optimal liquidity, implement prudent capital structure policies, and enhance operational efficiency to strengthen firm value. The mediation test reveals that profitability mediates the relationship between leverage and firm value, indicating that well-managed leverage can improve profitability, thereby enhancing firm value. However, profitability does not mediate the effect of liquidity on firm value, as high liquidity is often held as cash reserves or allocated to debt repayment rather than invested in profit-generating activities. Furthermore, the study finds that dividend policy does not moderate the relationship between liquidity or leverage and firm value. This suggests that firms may prioritize financial resilience, while investors are more concerned with long-term growth potential than with dividend payouts. The implications of these findings emphasize that liquidity and profitability are key drivers of firm value, whereas high leverage undermines it. The ineffectiveness of dividend policy as a moderating factor indicates that investor attention is more focused on fundamental financial performance and the company's strategic outlook. Therefore, management should aim to maintain optimal liquidity levels, manage leverage responsibly, and channel funds into productive investments that support sustainable, long-term growth, rather than retaining excessive cash or overly emphasizing dividend distributions.

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