

THE INFLUENCE OF PROFITABILITY AND SOLVENCY ON THE VALUE OF FINANCIAL COMPANIES LISTED ON THE INDONESIAN SHARIA STOCK INDEX IN 2018-2023

Sahri Muliana^{a,1}

Munawarah^{b,2}

^{a,b}Institut Agama Islam Negeri Bone, Indonesia

Email: sahrimulianimuli@gmail.com¹, munawarah@gmail.com²

ABSTRACT

This study aims to analyze the effect of profitability and solvency on firm value with firm size as an intervening variable in financial sector companies listed on the Indonesian Sharia Stock Index (ISSI) during the period 2018–2023. The type of research used is field research with a quantitative research method. The sample was determined using a saturated sampling method, which involves including the entire population in the sample. Hypothesis testing was conducted using the Smart-PLS application. The results of the study indicate that profitability does not have a direct effect on firm value but does have an indirect effect through firm size. Meanwhile, solvency has a direct effect on firm value but does not have an effect when mediated through firm size. These findings suggest that firm size plays an important role as a link between financial performance and perceived value in the eyes of investors. Overall, this study emphasizes the importance of integrated financial management in shaping growth strategies and sustainably enhancing company value.

Keywords:

Profitability, Solvency, Firm Size, Company Value, ISSI

Correspondence:

Name : Sahri Muliana

E-mail : sahrimulianimuli@gmail.com

1. INTRODUCTION

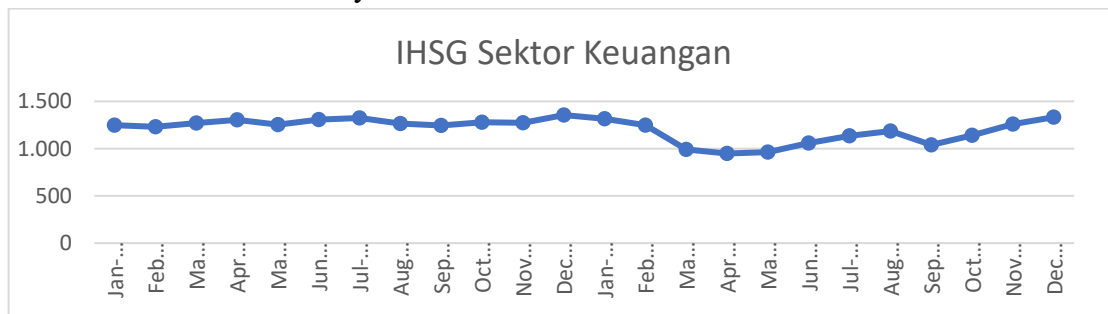
In an increasingly complex and competitive global economy, companies worldwide face increasing challenges in maintaining and strengthening their market positions. One of the key indicators used to assess a company's success is its value. Value reflects not only past performance but also market expectations regarding the company's future growth potential and sustainability. A successful company must be able to effectively manage both financial and non-financial potential to increase its value for long-term sustainability. (Hapsari 2023)

The development of the Islamic economy in Indonesia has shown a very positive trend in recent years. One key indicator of this development is the rapid growth of the Indonesian Islamic Stock Index (ISSI), which reflects the performance of Islamic stocks in the Indonesian capital market. (Sulistio, Ahkam, and Wisudanto 2024) Social facts show that amidst global economic instability, the Indonesian Capital Market continued to perform positively throughout 2023. As

of December 28, 2023, the Financial Services Authority (OJK) had issued an Effective Statement of Registration Statements for 211 public offerings with a total emission of Rp247.06 trillion. Securities Crowd Funding (SCF) fundraising also continues to grow. SCF has been successfully utilized by 493 SMEs, with a total fundraising of Rp1.04 trillion from 167,788 investors, through 16 SCF platforms. In terms of demand, the OJK noted rapid growth in the number of retail investors in Indonesia, as evidenced by the number of Single Investor Identifications (SIDs), which reached 12.16 million SIDs, a nearly fivefold increase in the past four years. (OJK 2023)

Figure 1

ISHG by Financial Sector and Month 2019 to 2020



Source: Central Statistics Agency of DKI Jakarta

Based on the financial sector stock price data above, it shows that stock price fluctuations and instability occurred in 2019 and 2020. In early January, the financial sector stock price began to decline and this occurred for four months, from January to April. In January, there was a decline of 39%, where in December 2023 it was 1,355, falling to 1,316 in January 2024. It decreased again in February 2024 to 1,249, March 2024 to 990, and in April it decreased to 948. In May 2024, the stock price increased, namely the stock price in May 2024 was 963 and this increase continued until August 2024. However, it decreased again in September 2024. The stock price rose again in October 2024 until the end of 2024. (Central Statistics Agency of DKI Jakarta 2021)

One of the variables that influences a company's value is profitability. Profitability is a measure of how well a company generates profits from its assets or capital. High profitability indicates that a company can generate high profits. (CK Saputri and Giovanni 2021)

The solvency ratio reflects a company's ability to repay existing debt using its capital or equity. The higher the solvency ratio, the greater the company's financial risk for expansion, which can increase profits and ultimately positively impact the company's value. (Idris 2021)

This study uses firm size as an intervening variable. Firm size is the size of a company, measured by its equity and sales. Larger companies are relatively more stable and generate

greater profits than smaller companies. The larger the firm size, the easier it is for the company to enter the capital markets. Therefore, companies with substantial assets are more attractive to investors, creditors, and other users of financial statements than smaller companies. (Risqi and Suyanto 2022)

Research conducted by Sari (2023) shows that profitability has a significant effect on company value and firm size is able to moderate the effect of profitability. (Excerpt 2023) This research aligns with research conducted by Idris in 2021, which found that profitability directly impacts firm value, while solvency directly impacts firm value. (Idris 2021) However, these two studies disagree with the research conducted by Dewi & Susanto (2022), which stated that profitability does not significantly influence firm value because profitability is not the only aspect shareholders consider when investing in a company. Solvency, on the other hand, has a significant negative influence on firm value. (Dewi and Susanto 2022) Of the three studies conducted, none have examined financial companies registered with ISSI. In addition, this study includes a company size variable that will intervene between solvency and profitability and company value.

This research is expected to serve as a reference or information source for economic actors in understanding the factors influencing company value and provide investors with insights into investment decisions based on the company's value. This research can also contribute to the development of ideas, particularly regarding company value.

Based on the objectives and urgency that have been explained and reviewing that there are differences in the results of research that have been conducted by previous researchers, therefore the researcher is interested in re-examining the value of this company by taking the title "The Effect of Profitability and Solvency on the Value of Financial Companies Listed on the Indonesian Sharia Stock Index in 2018-2023 with Firm Size as an Intervening Variable."

2. LITERATURE REVIEW

2.1 Signal theory

Signal theory is an important concept in the finance and economics literature that explains how companies provide information to external parties, especially investors. This theory, developed by Michael Spence in 1973, focuses on reducing information asymmetry between a company and its external stakeholders. (Gama, Mitariani, and Widnyani 2024).

Although this signal theory is a theory modern However, the concept in this theory aligns with the Quran, which emphasizes communication, transparency, and accountability. The following verse in the Quran is highly relevant to this signal theory (Surah Al-Baqarah, verse 282). (RI 2010):

يَا أَيُّهَا الَّذِينَ آمَنُوا إِذَا تَدَايَنْتُمْ بِدِينٍ إِلَىٰ أَجَلٍ مُّسَمًّى فَاكْتُبُوهُ ۚ وَلْيَكْتُب بَيْنَكُمْ كَاتِبٌ بِالْعَدْلِ

It means:

"O you who believe, if you don't do your congregation in cash for the specified time, you should write it down. And let a writer among you write it correctly."

2.2 Company Value

Company value is the price of a share on the stock market that investors are willing to pay to own a company. Beyond the stock price, company value can be measured by the development of a company's financial performance. This financial performance is derived from financial reports, which provide a company's financial information. This financial information is provided by the company for analysis by investors and potential investors to assess the company. Investors generally assess a company's condition based on financial ratios such as liquidity, leverage, profitability and the basic considerations of companies in making investments. (Apriliyanti, Hermi, and Herawaty 2019)

2.3 Profitability

Profitability is a company's ability to generate profits over a specific period of time. The profitability aspect is crucial for ensuring a company's long-term survival, as it reflects the company's future prospects. (Aldi, Erlina, and Amalia 2020)

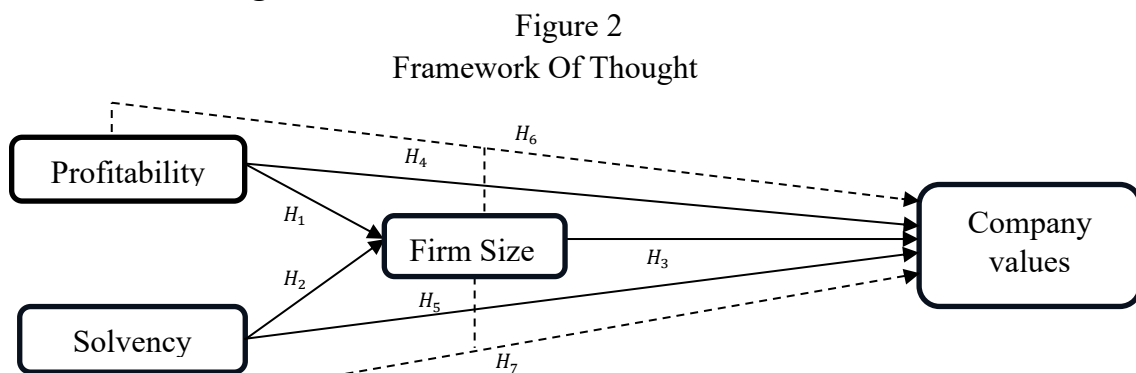
2.4 Solvency

The solvency ratio is a ratio used as a measuring tool for an organization in meeting its long-term debts, which plays an important role in influencing profitability, because this ratio can be used by companies to increase company capital in order to increase profits. (Nabella, Munandar, and Tanjung 2022)

2.5 Firm Size

Firm size or commonly called company size is the size of a company, which can be measured based on the total assets or wealth owned by the company, the measurement can be done using the logarithmic value of total assets. (Lakoni and Seventeen 2021)

2.6 Framework Of Thought



Source: Data Processing 2025

2.7 Hypothesis

2.7.1 Influence of profitability to firm size

Companies with high profitability can be said to have a better opportunity to develop even better businesses. The resulting profits can be reinvested to expand production capacity, open new markets, or even acquire other companies. (Muljani 2002) All of these things contribute to the growth of the company's size, both in terms of revenue, assets, and number of employees. (Ruldianah and Kusumawati 2022)

H₁: Profitability has a significant effect on firm size

2.7.2 The Influence of Solvency on Firm Size

Companies with high solvency, that is, the ability to meet their long-term obligations, have easier access to financing. With strong solvency, companies demonstrate to creditors and investors that they have the capacity to manage debt effectively, thereby increasing confidence in providing further loans or investments. (Jaya et al. 2023)

H₂: Profitability has a significant effect on firm size.

2.7.3 The influence of firm size on company value

Larger companies are often perceived as more stable and have a greater capacity for growth, which can increase their value in the eyes of investors. Larger companies typically possess more resources, assets, and a broader market share. This stability makes them more attractive to investors, as they are perceived as having lower risk and a greater ability to withstand uncertain market conditions. (Khodijah et al. 2024)

H₃: Firm size has a significant influence on company value.

2.7.4 The influence of profitability on company value

The profitability ratio is a ratio that can be used to assess a company's ability to earn profits. (Buchori 2022) Profitability can guarantee investors to invest capital in the company, and this can have an impact on increasing the company's share price and making the company's value higher. (Nirawati et al. 2022)

H₄: Profitability has a significant impact on company value.

2.7.5 The influence of solvency on company value

Solvency ratios reflect a company's ability to meet its long-term obligations, which is crucial for investors' perceptions of risk and stability. Companies with high solvency are generally perceived as more financially stable. Investor confidence in a company's ability to manage debt effectively can increase its market value. (Swastika and Agustin 2021)

H₅: Solvency has a significant impact on company value.

2.7.6 Firm size in intervening in the influence of profitability on company value

With higher profits, companies can reinvest those profits in expansion. This expansion can increase the company's size, both in terms of assets, revenue, and number of employees. (Salim 2024) The larger a company, the more resources it has access to, including capital and a broader market. As company size increases, its value also tends to increase. (Wiantari 2022)

H₆: Profitability has a significant effect on company value through firm size.

2.7.7 Firm size in intervening in the influence of solvency on company value

Companies with good solvency have a greater ability to obtain external financing at a lower cost. When companies can manage debt well and have sufficient cash flow to meet long-term obligations, they tend to have rating better credit. (Ass 2020)

H₇: Solvency has a significant effect on company value through firm size.

3. RESEARCH METHODS

3.1 Types Of Research

The type of research used is type of field research. Field research is a type of research that is conducted directly in the field or the place where the phenomenon being studied occurs. The aim is to collect empirical data that is factual and actual from sources first, namely the object or subject being researched. (Syahrizal and Jailani 2023) In this field research quantitative methods are used. Quantitative research is a type of research that focuses on collection and analysis of numerical data to explain phenomena, test hypotheses, and identify relationships between variables. (Ramdhan 2021) The use of quantitative research allows researchers to conduct analysis objective and measurable statistics, such as panel data regression analysis, to test research hypothesis.

3.2 Population and Sample

The population in this study is Financial Companies listed on the Indonesian Sharia Stock Index (ISSI) in the period 2018-2023. The population in this study as many as 6 companies during the period. So the population in This study consisted of 32 populations.

Sampling in this study was done using Saturated sampling method. Saturated sampling is a sampling technique in research where all members of the population are used as samples. In other words, no member of the population is left behind and no chosen. (Suriani and Jailani 2023) Sampling using this method was chosen because the population of this study is relatively small.

3.3 Variables

In research in this study, the dependent variable used is company value. Company value measured using a ratio Price to Book Value (PBV).

Independent or free variables are variables that influences or explains another variable (dependent variable). The independent variables in this study are: Profitability in this study is measured using Return on Assets (ROA) and Return on Equity (ROE) Ratio, Solvency in this study was measured using Debt to Asset Ratio (DAR) and Debt to Equity Ratio (DER).

Variable intervening what is meant in this research is Firm Size. Firm size in this study as a variable intervening who acts as an intermediary the relationship between profitability and solvency on company value. In this study The natural logarithm of total assets is a measuring tool in finding firm size.

3.4 Data Analysis

Descriptive statistics are statistics that function to describe or provide an overview of the object being studied through sample data or population data as it is. Research hypothesis testing is carried out using an approach Structural Equation Modeling (SEM) using Smart-PLS. Reason the use of this analysis tool is due to the existence of several complex relationships of several variables tested in this study. The SEM-PLS test using Smart-PLS version 4 was conducted in 3 stages.

3.4.1 Analysis Outer Model (Measurement Model)

- a. Convergent Validity
- b. Discriminant validity
- c. Evaluate reliability

3.4.2 Analysis Inner Model (Structural Model)

Inner model in SEM research is a structural model that describes the causal relationship between latent variables. In the analysis inner model, some important measures What you need to pay attention to is R^2 : R-Square(R^2), F-Square(F^2) and Q^2 .

3.4.3 Hypothesis Testing

Hypothesis testing in the context of SEM is a statistical process that used to test the truth of the proposed hypothesis regarding the relationship between variables in the model that has been built. In testing a hypothesis, the direction of the relationship between a variable with other variables determined by the value original sample estimates (O). Value original sample which shows positive when it is close + 1, while values closer to -1 indicate a negative relationship. In addition, the significance of the relationship is measured by looking at the t-statistics value. (T) and p-values (P). The relationship is considered significant if the t-statistics value more than 1.96 or p-values less than 0.05.

4. RESULT

4.1 Analysis and testing of Measurement Model (Outer Model)

4.1.1 Convergent Validity

Table 1

Convergent Validity (Outer Loadings)

Name	Profitability	Solvency	Firm Size	Company Values
ROA	0.967			
ROE	0.979			
DAR		0.908		

DER	0.949
SIZE	1,000
PBV	1,000

Source: Data Processing *Smart-PLS2025*

From the management of research data using the Smart-PLS version 4.0 application, which can be seen in table 4.3, it states that *outer model* or the correlation between the construct and other variables has met the requirements *Convergent Validity* the ideal with *loading factor* all indicators are above 0.70 so there is no need for model modification to remove indicators that have a value *loading factor* below 0.70.

4.1.2 Discriminant validity

Table 2
Discriminant Validity (Cross Loading)

Name	Profitability	Solvency	Firm size	Company Values
ROA	0.967	-0.227	0.313	-0.175
ROE	0.979	-0.329	0.432	0.042
DAR	-0.405	0.908	-0.142	-0.427
DER	-0.171	0.949	0.042	-0.585
SIZE	0.390	-0.040	1,000	0.393
PBV	-0.056	-0.555	0.393	1,000

Source: Data Processing *Smart-PLS2025*

From the results of management *discriminant validity* The above shows that the correlation between the indicators has met the requirements where it can be seen that the indicators for each variable, namely X1.1(ROA), X1.2(ROE), X2.1(DAR), X2.2(DER), Z (Company size/Size), and Y (PBV) has fulfilled *discriminant validity* which is good because it has the highest cross loading value compared to the cross loading values of other latent variables.

4.1.3 Evaluating reliability

Table 3
Mark Cronbach's Alpha And Composite Reliability

Name	<i>Cronbach's alpha</i>	<i>Composite reliability (rho_a)</i>	<i>Composite reliability (rho_c)</i>
Profitability	0.944	0.982	0.973
Solvency	0.844	0.893	0.926

Source: Data Processing Smart-PLS2025

From the management of research data using the Smart-PLS version 4.0 application, which can be seen in table 4.3, it states that all constructs have met the reliability criteria with results showing that the value *Cronboch's Alpha* exceeds or is higher than 0.7 where the profitability value has *Cronboch's Alpha* of 0.944 while the solvency value has *Cronboch's Alpha* of 0.844. The value *composite reliability (rho_a)* and composite reliability (*rho_c*) shows that the entire construct has also met the expected criteria, namely greater or higher than 0.6. Therefore, it can be concluded that the test data is reliable.

4.2 Structural Model Analysis and Testing (Inner Model)

4.2.1 R-square test

Table 4
R-value Square

Name	R-square	Criteria
<i>Firm size</i>	0.158	Weak
Company Values	0.612	Strong

Source: Data Processing Smart-PLS2025

Based on table 4.6 it can be seen that the R-value square variables firm size is 0.158 which shows that the strength of the profitability and solvency variables in predicting firm size is 15.8%. And the R-values quare the company's value is 0.612, which shows that the strength of profitability, solvency and firm size in predicting company value is 61.2%.

4.2.2 F-square test

Table 5
F-Square Value

Name	<i>Firm size</i>	Company Values
Profitability	0.186	0.428

Solvency	0.007	1,046
<i>Firm size</i>		0.649

Source: Data ProcessingSmart-PLS2025

Based on the results of testing the research data in table 4.6, it can be explained that the F-value square on the solvency variable firm size of 0.007. This explains that the solvency variable has a weak influence in explaining firm size. As for the F-value square on the profitability variable to firm size of 0.186. This explains that the profitability variable has sufficient influence in explaining firm size. While each variable of profitability, solvency and firm size has a deep influence in explaining the company's value. Where the F-value square each variable is greater than 0.35, namely profitability to company value of 0.428, solvency to company value of 1.046, firm size to company value of 0.649.

4.2.3 Q-Square Test

Table 6
Q-value Square

Information	Q ² predict
<i>Firm size</i>	-0.428
Company Values	0.059

Source: Data ProcessingSmart-PLS2025

Table 6 shows that the Q-square value for firm size is -0.428, meaning it has no predictive relevance. Meanwhile, firm value has predictive relevance because its Q-square value is above 0, namely 0.059.

4.3 Hypothesis Testing

Table 7
Hypothesis Testing

Information	Original sample (O)	T statistics	P values
Profitability -> Firm size	0.413	3,702	0.0002
Solvency -> Firm size	0.081	0.283	0.777
<i>Firm size</i> -> Company Values	0.547	2,973	0.003

Profitability -> Company Value	-0.464	1,385	0.166
Solvency -> Company Value	-0.669	4,226	0.00002
Profitability -> Firm size -> Firm value	0.226	2,129	0.033
Solvency -> Firm size -> Company value	0.044	0.239	0.811

Source: Data Processing Smart-PLS2025

4.4 DISCUSSION OF ANALYSIS RESULTS

4.4.1 The effect of profitability on firm size.

Based on the results of this first hypothesis test, it was found that profitability significantly influences firm size. This suggests that when profitability increases, firm size will also increase. Although no previous research has directly tested the hypothesis that profitability significantly influences firm size, several theories support this assumption. For example, signaling theory explains that companies with high profitability tend to attract investor attention, which can increase their access to capital. (Pramesti and Machdar 2024)

Furthermore, companies with high profitability typically have more resources to reinvest in their businesses. Profit reinvestment is key to growth, allowing companies to use profits to expand production capacity, improve infrastructure, or enter new markets. (FR Saputri and Muharam 2024)

4.4.2 The Influence of Solvency on Firm Size.

Based on the results of the second hypothesis test, it shows that solvency does not have a significant effect on company size (firm size), providing new insights in the financial literature, especially because there has been no previous research that specifically discusses this relationship, namely the relationship between solvency and company size.

On Financing theory states that large companies typically have better access to financing sources, both through debt and equity. Even if their solvency is low, they can still raise funds for expansion. For example, a company with a good market reputation can attract investors despite its high debt ratio because investors believe in its long-term growth potential. (Amalia and Khuzaini 2021)

4.2.3 The influence of firm size on company value

The results of the hypothesis test that has been carried out show that company size (firm size) has a significant influence on company value. This study indicates that larger companies tend to have higher market values.(CFRM, Hery Se, M.Si., CRP. 2023)

The results of this hypothesis test are supported and in line with previous research conducted by Aulia Zulfa, Liza Novietta, and Mhd Karya Satya Azhar in 2022 stated that company size reflects the total assets owned by the company. The larger the company, the more assets it owns, and the greater the funding required to maintain its operational continuity.(Zulfa, Novietta, and Azhar 2022)

4.2.4 The influence of profitability on company value

The results of the hypothesis test indicate that profitability does not significantly influence firm value. This is evident from the statistical analysis, where the p-value obtained is greater than the established significance level. In the study, profitability was measured using common financial ratios, but the results indicate that changes in profitability do not significantly contribute to changes in firm value.

This is supported and in line with research conducted by Cynthia Dewi and Liana Susanto in 2022 stated that profitability does not significantly influence company value because profitability is not the only aspect shareholders consider when investing in a company. Shareholders sometimes invest short-term, as they tend to focus on market conditions when buying or selling shares, so profitability is not a benchmark for increasing company value.(Dewi and Susanto 2022)

However, this research is not in line with the research conducted by M. Fahriyal Aldi, Erlina and Khaira Amalia in 2020. Which showed that profitability has a significant positive effect on company value.(Aldi, Erlina, and Amalia 2020)

4.2.5 The influence of solvency on company value.

Hypothesis testing results indicate that solvency significantly impacts firm value, meaning a company's ability to meet its long-term obligations can influence investor perceptions of its market value. Higher solvency indicates greater investor confidence in the company's long-term viability, which in turn can increase stock value.

The results of this hypothesis testing support and align with research conducted by AANgr Bgs Aditya Permana and Henny Rahyuda in 2019 entitled "The Effect of Profitability, Solvency, Liquidity, and Inflation on Company Value." This study states that solvency has a significant negative effect on company value. This suggests that investors tend to pay attention to the size of a company's liabilities or debts. If a company's total assets do not exceed its existing debts, the company is at higher risk of bankruptcy. The higher the debt-to-equity ratio (DER), the greater the proportion of debt in the company's capital structure, which in turn increases the company's burden on external parties, such as creditors.

However, this research disagrees with the 2022 study by Lorina Siregar Sudjiman and Paul Eduard Sudjiman, "Analysis of the Effect of Profitability, Liquidity, and Solvency on Firm Value," which stated that solvency, as measured by DER, has no effect on firm value.

4.2.6 Firm size in intervening in the influence of profitability on company value

Hypothesis testing results indicate that profitability significantly influences firm value, with firm size acting as an intervening variable. Although no previous research has specifically addressed this relationship, signaling theory suggests that companies exhibiting strong earnings performance send a positive signal to investors regarding future prospects. (Mumtazah and Purwanto 2020)

4.2.7 Firm size in intervening in the influence of solvency on company value

The results of the hypothesis test indicate that solvency does not significantly influence firm value through firm size. This indicates that while solvency, as measured by the debt-to-equity ratio, is an important indicator of a company's financial health, investors do not always consider it a primary factor in assessing a company's value. Although there has been no previous research that specifically discusses this relationship, the capital structure theory put forward by Modigliani and Miller states that in perfect market conditions, a company's value is not influenced by its capital structure. (Lau 2022) In other words, investors may focus more on other factors, such as profitability and growth potential, rather than just looking at the level of debt a company has.

4. CONCLUSION AND SUGGESTIONS

4.1. Conclusion

Based on the findings and discussion, the influence of financial variables on company value based on the results of the hypothesis test is as follows:

1. Profitability significantly influences company size. This is supported by signaling theory, which suggests that companies with strong financial performance attract investor attention.
2. Solvency does not have a significant effect on company size.
3. Company size has a significant influence on company value, where larger companies tend to have higher market value.
4. Profitability does not show a significant influence on company value.
5. Solvency has a significant impact on company value, where companies with high solvency tend to be more trusted by investors, increasing their market value.
6. Firm size functions as an intervening variable in the relationship between profitability and firm value.
7. Solvency does not have a significant effect on firm value through firm size, indicating that investors focus more on overall financial performance rather than just on the debt ratio.

Overall, the results of this study confirm that sound financial management and effective risk management are the main foundations for creating sustainable corporate value. The finding

that profitability, solvency, and company size are interrelated suggests that company value is not determined by a single factor. Therefore, companies need to integrate financial strategies that are not solely oriented towards increasing short-term profits but also consider capital structure stability, operational efficiency, and sustainable expansion capacity.

4.2. Suggestion

Based on research findings regarding the influence of profitability and solvency on the value of financial companies listed on the Indonesian Sharia Stock Index for the 2018-2023 period through Using firm size as an intervening variable, the author provides the following suggestions:

1. Company management: apart from paying attention to a company's profits or benefits, a company must also have a sustainable growth strategy and the health of the company itself.
2. Investors: increase literacy in reading company fundamental signals.
3. BEI: developing regulations that encourage the growth of sharia companies.
4. Future research is expected to be more comprehensive and delve deeper into the variables that shape a company's value. And of course, more in-depth research into management mindsets and market reactions to these financial indicators.

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